Y 4. F 76/1: T 13/11

U.S. -Taiwan Economic Relations, 10...

# U.S.-TAIWAN ECONOMIC RELATIONS

## JOINT HEARING

BEFORE THE

SUBCOMMITTEES ON
ECONOMIC POLICY, TRADE AND ENVIRONMENT

AND

ASIA AND THE PACIFIC

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 30, 1993

Printed for the use of the Committee on Foreign Affairs

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# U.S.-TAIWAN ECONOMIC RELATIONS

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**TUESDAY, MARCH 30, 1993**

HOUSE OF REPRESENTATIVES
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT AND THE SUBCOMMITTEE ON ASIA AND THE PACIFIC,

*Washington, DC.*

The subcommittees met, pursuant to notice, at 2:05 p.m., in room 2172, Rayburn House Office Building, Hon. Sam Gejdenson (chairman of the Committee on Economic Policy, Trade and Environment) presiding.

Mr. GEJDENSON. U.S.-Taiwan relations are at a turning point. Democracy has come to the island and the U.S. trade deficit with Taiwan has steadily been declining. Yet America continues to treat Taiwan like a second-class country.

Today's hearing, therefore, comes at an important time in the bilateral relations between our two countries. We need to fully review U.S. policy toward Taiwan and explore the different ways the United States can improve trade relations with Taipei.

In particular, we have to craft a policy which significantly increases our exports to Taiwan and supports Taiwan's applications to the GATT and protects the interests of American businesses in that country.

Three months ago, I led a trade mission to Taiwan with representatives of 14 Connecticut companies. The trade mission opened doors for Connecticut exporters and gave all of us an opportunity to discuss Taiwan's economic future with the nation's top leaders. Two companies, one of which will testify here today, were fortunate enough to sign contracts while they were on the island.

I was very impressed by what I saw in Taiwan. While Beijing continues to cling to authoritarian ways, Taiwan has become a flourishing democracy, complete with a legislature questioning government decisions every step of the way.

Taiwan is also a growing market for U.S. goods and services. Taiwan exports to the United States were worth $15 billion last year and the U.S. trade deficit with Taiwan dropped to $9 billion, down from $19 billion in 1987.

I was also impressed by the deep-seated desire of the Taiwanese companies to buy American products, particularly over those made by Japan.

Without question, many important issues in the bilateral relationship need to be resolved. Taiwan's constitutional reform process is still ongoing and Taipei has not moved quickly enough to elimi-

nate import barriers and protect intellectual property. Resolving these disputes will not be easy and will periodically strain U.S.-Taiwan relations.

While the Taiwan Government must move quickly to resolve these concerns, the United States must also take concrete steps to demonstrate its support for Taiwan, to improve the U.S.-Taiwan trade relationship and to promote the interests of American industry.

First, the United States should become Taiwan's champion in the GATT. Both Taiwan and the PRC have applied to join the GATT, but Beijing has lobbied GATT membership to ensure that the PRC joins before Taiwan. Given the PRC's state-run economy, however, it will likely be years before Beijing's application is accepted. Taiwan should not be held hostage to the mainland's intransigence and the United States should work to persuade other GATT members to allow Taiwan to join the GATT as soon as possible.

Without question Taiwan must make significant concessions before its GATT application is accepted. Important barriers must be eliminated. Intellectual property laws must be strengthened and enforced. If Taiwan demonstrates a willingness to play by GATT rules, however, the United States must and should play a leadership role on Taiwan's behalf at the GATT.

Second, U.S. export promotion resources must be marshalled to promote U.S. exports to Taiwan. As a developed nation undergoing a massive $300 billion infrastructure development program, Taiwan represents a multibillion dollar market for American products. We must use the full resources of the Commerce Department, the Eximbank, OPIC and the Trade and Development Agency to help American firms sell to Taiwan.

Third, the United States should stop treating Taiwan like a second-class country. The United States should dispatch high level government representatives to negotiate the trade differences and to promote American exports.

I hope this hearing will be particularly useful because we have several witnesses who are currently doing business in Taiwan and can guide us on the best way to help American firms succeed in that market.

I thank today's witnesses. Before hearing from them, I ask for our ranking member, Mr. Roth, to make his opening statement.

OPENING STATEMENT OF MR. ROTH

Mr. ROTH. Thank you, Mr. Chairman, and I will be brief but let me join you in welcoming our witnesses today.

You are each serving on the front lines of a struggle to make us more competitive in the Asian market. The newspaper headlines may be about the E.C. but Asia is where the real potential for growth is at. No doubt that is what prompted Chairman Gejdenson to focus his latest trade mission on Taiwan.

Last year alone, the United States exported $115 billion to nine countries in the East and South Asia. That is one-fourth of all U.S. exports. The same nine countries sold $193 billion to the United States. That is about 35 percent of all U.S. imports. When you take those two figures together, you see that 80 percent of our trade def-

icit occurred in the Asian market and that is a cause for great concern to us.

So your efforts to expand American exports to Asia are absolutely crucial to improve our trade picture. Taiwan is a good case in point.

Taiwan is our sixth leading export market. Last year, the Taiwanese purchased $15 billion from the United States and Taiwan is also our sixth largest source of imports, selling $24 billion in goods. What is more, Taiwan has the largest financial reserve per capita of any country in the world and that means they can pay their bills.

We have a $9 billion deficit with Taiwan which, again, when I talk to our colleagues, is of great concern to us. This is the third worst of all U.S. trading partners. We just have to have the Taiwanese buy more American products.

It is also just half of what it was 5 years ago, so it has been increasing, this trade deficit with Taiwan. This improvement is a direct result of the work, I think, done by the Bush administration in pushing Taiwan to increase their imports of American goods.

But Taiwan's trade policies are still a problem. They maintain defenses against imports, particularly farm goods. They sharply restrict investment in financial services from abroad and as the U.S. Trade Representative will report to Congress tomorrow, Taiwan is still a major problem in protecting intellectual property.

Taiwan wants to join GATT but before Taiwan is accepted, there will have to be fundamental changes in Taiwan's import restrictions and its systematic violation of intellectual property rules.

Today's witnesses bring us a range of solid expertise on U.S.-Taiwan trade. I look forward to their testimony so that we can strengthen the bonds that unite Taiwan and the United States especially in the area of trade.

And I again thank you, Mr. Chairman, for holding this hearing this afternoon.

Mr. GEJDENSON. Thank you. If I could call all our witnesses to the table: David Laux, president, United States-Republic of China Economic Council; Fritz Attaway, senior vice president for government relations, Motion Picture Association of America representing the International Intellectual Property Alliance; Daryl Brewster, business director, Global Brand Management, Campbell Soup Company, Camden, New Jersey; James Arthur, executive director, Gerber Garment Technology, Inc., Tolland, Connecticut; and James Howard, vice president and general manager of Paramax Systems Development, Great Neck, New York.

We will start with Mr. Laux, president, United States-Republic of China Council.

Mr. Laux, please proceed.

## STATEMENT OF DAVID LAUX, PRESIDENT, UNITED STATES OF AMERICA-REPUBLIC OF CHINA ECONOMIC COUNCIL

Mr. LAUX. Thank you, Mr. Chairman.

Chairman Ackerman, Chairman Gejdenson and distinguished members of the two subcommittees——

Mr. GEJDENSON. Due to the number of witnesses, all of your statements will be placed in the record. If you could try to give us

a summary or read the most salient points, we will give you a 5-minute light warning to guide you along.

Mr. ROTH. Mr. Chairman, our other valued member of our committee has an opening statement he would like to put into the record.

Mr. GEJDENSON. Without objection.

OPENING STATEMENT OF MR. MANZULLO

Mr. MANZULLO. Thank you, Mr. Chairman. Mr. Chairman, I commend you for holding hearings on the economic relations between the Republic of China and the United States. We are Taiwan's largest trading partner. Taiwan ranks 13th among major trading countries. Taiwan with 21 million people exports nearly as much as the People's Republic of China with 1.2 billion people.

I sympathize with the need to bring the large economy of the Republic of China into the world system governing the rule of trade, GATT. I believe it is a good long-term goal. Before we jump that gun into recommending Taiwan's membership in the GATT, a few fundamental questions must be answered. That is why I am pleased to see the panel before us which will hopefully provide us with a balanced perspective of problems with our trading relationship. I, too, have my concerns.

I commend Taiwan's efforts to reduce their trade deficit with us. In 1987, it was as high was $19 billion. Last year, our trade deficit with Taiwan was $9.4 billion. That is good news, however, not all problems have been solved.

Green Giant employees 300 people at a plant in my district located in Belvidere, Illinois processing corn and peas into a high quality canned vegetable product. Taiwan has an average tariff of 36.7 percent against processed food imports whereas our rate of tariff is only 6.5 percent.

In the bilateral 1989 trade action plan between Taiwan and the United States, Taiwan committed to reduce the average level of tariffs on agricultural products from nearly 26 percent to 19.92 percent by the year 1992. Yet the tariffs on high value-added U.S. agricultural exports such as Green Giant canned sweet corn and frozen vegetable products remain at 25 percent and 35 percent respectively.

All my workers at the Belvidere plant ask for is a level playing field, a Taiwan import duty rate of 7 percent on processed food. Opening markets in Taiwan is Green Giant's number one export priority. Speaking for the 300 workers in the Belvidere Green Giant plant, this hearing could not have been more timely.

Mr. Chairman, I look forward to the question and answer period where we will discuss this matter in future detail and perhaps develop allies among the witnesses before us in working together to further open the markets in the Republic of China.

Mr. GEJDENSON. Mr. Laux.

Mr. LAUX. Yes, sir.

I thank you for the honor and privilege of being here. I read and heard your statement, Mr. Chairman, with great interest and I think all three conclusions that you drew I totally agree with and so I am delighted to have the opportunity to reinforce those observations.

First, a word on my own background. I have spent most of my life, about 40 years, working on Chinese affairs one way or the other trying to strengthen U.S. relations with Chinese on both sides of the streets.

For the last 11 years, I have spent 4½ years on the National Security Council staff in charge of China and Taiwan, among other things; 3½ years as chairman and managing director of the American Institute in Taiwan, our substitute for an embassy, and the last 2½ years as president of this council.

The USA-ROC Economic Council is a private, nonprofit association. Our funds come from the dues of our 350 company members and our activities, we receive no money from the Government of Taiwan and we speak for U.S. business not for the Government of Taiwan.

I have submitted a rather lengthy written statement and I will leave the detailed replies to your questions to perusal there but I want to focus my oral remarks here on two things: one, the importance of Taiwan to us, and the things that I think are most important that we need to do to improve the prospects for our trade there.

First, some of the statistics have already been cited but this little island of 20 million people is not quite three times the size of Connecticut and 1½ times the size of Maryland. And yet in 1992 it was the 13th or 14th largest trading economy in the world, the world's 12th largest export, our 6th largest trading partner after Canada, Japan, Mexico, Germany and Great Britain, and it is growing rapidly.

It is already a bigger trading partner for us than either France or South Korea and the prospects are good that it will surpass Great Britain and become our fifth largest trading partner in the next 2 years.

For several years, Taiwan held the world's largest foreign exchange reserves. It has been exceeded recently by Germany. Taiwan buys twice as much from us as China does and China, of course, has 55 times as many people and 275 times the area.

Taiwan's trade and investment with the People's Republic of China is growing at a remarkable rate. China is the large "foreign" investor in Fujian Provence opposite Taiwan and the second largest after Hong Kong in Guangdong Province in the South.

The current buzz word for the rapidly developing economic relations between the three entities of China, Hong Kong and Taiwan is "Greater China," a term that is not particularly appreciated in either Taiwan or China. But if the three entities were taken together, the resulting Chinese ethnic entity would be our third largest trading partner replacing Mexico.

In 1992, Taiwan's economy grew more than any of the other "little dragons" in Asia and its per capita gross national product exceeded $10,000. This is giving it a new affluence and a new market for us in high consumer goods.

The Department of Commerce says that Taiwan is today the world's largest market for major infrastructure projects. The 6-year plan of the Republic of China, a very ambitious plan, amounts to about $330 billion over the next few years at the current rates of

exchange. About $60 to $100 billion of that is going to be available to foreign firms in the form of international tenders.

So in sum, I see Taiwan as the single most important commercial opportunity for U.S. business in the world today.

I have cited in the report the efforts that the United States has made to open up the market, the steps that Taiwan has taken to accommodate us in that area and the things that need to be done. And I do not mean by this impressive array of statistics to say that there are no problems with Taiwan. We have plenty and one of the areas, of course, is in intellectual property rights. I am sure you are going to hear more on that from Mr. Attaway. But I am saying that despite those problems, progress has been good and the prospects for more progress are good.

The thing that I want to focus on, I think that all of our trade agencies, the Department of Commerce, the Trade and Development Agency, the U.S. Trade Representative and so forth, have really done an excellent job.

But the single best thing the United States could do to improve the prospects for business is to, as you suggest in your third point, revise the outmoded guidelines which have been governing the way we treat Taiwan since 1979 when we accorded full diplomatic recognition to China.

There is the Taiwan Relations Act passed by the Congress in April of 1979 which lays out in some detail how we will conduct our unofficial relations with Taiwan in the commercial and cultural and other areas and that is a very, very good document. It laid down some guidelines for congressional oversight which I think were well adhered to by the Congress in the first few years but which Congress has, in effect, stepped back a bit from in the years since then. And I am delighted to see the enthusiasm and interest of your two committees because I think that more congressional oversight of our relationship with Taiwan by the Congress is called for. That is one recommendation that I would make.

The guidelines which were established were an interagency exercise. They are not something that—in effect, it is something we did do ourselves, not something that was negotiated with the People's Republic of China in any of the three communiques we had with them or in any other agreement we have with them. And, in effect, for instance, we have only allowed one Assistant Secretary per year to visit Taiwan, usually an Assistant Secretary of Commerce. All applications to visit Taiwan by executive branch officials, office director and above, including Deputy Assistant Secretary, Assistant Secretary and so forth, have to go to the State Department and in some cases to the NSC for approval. And where that job can be done by someone else, it is almost always declined, particularly when you get at the Assistant Secretary level and above.

Our council and the American Chamber of Commerce in Taipei both wrote to President Bush in the fall of 1990 urging that this be changed and urging that we follow the suit of other countries around the world in sending cabinet level officers there from economic departments to support the efforts of our business companies and that was finally done last year with the visit of Carla Hills in December of 1992, the first U.S. cabinet officer to visit in 14 years.

Now, we have got to stop treating Taiwan like a second-class citizen. They have put up with this patiently for 14 years. They do not have to now. They are being courted by the countries of Europe who are after those $330 billion worth of contracts. We face a competition there that we did not have to in the past. We have simply got to review the way we treat them and do more.

And I think perhaps I will stop there except to say a couple of final remarks, one on the GATT. I think absolutely this is in a sense the opportunity of a lifetime. When Taiwan gets into the GATT, the process of negotiation with us and the other GATT partners is going to result in effect finishing off the remaining barriers that are problems for us in our trade and the conclusion of our members and the U.S. Trade Representative's Office and so forth is that entry into the GATT is going to be a great assist in opening up the possibility for more exports.

And, secondly, in the process, what is going to happen here inevitably, I think, is that Taiwan is going to be ready to enter the GATT and a question that is going to face the United States and other countries is should they get in before China or not. And our recommendation is absolutely. They should get in when they are ready. They should not be delayed for political reasons to enter at the same time or immediately after China. There is a precedent for that in that Hong Kong is already in the GATT and Hong Kong, of course, is not a full country by international standards.

Secondly, I would like to draw your attention in my detailed remarks to the prospects for American business in Taiwan in some of the individual sectors there but particularly the power sector and the defense area, which need some special attention.

And with that, I would like to submit along with my written testimony a copy of our 6-year plan study which we did under a grant from TDA last year, a copy of the agenda for the six seminars that we put on in cities across the United States and my own biographic sketch.

Thank you very much.

[The prepared statement of Mr. Laux appears in the appendix.]

Mr. GEJDENSON. Thank you very much. When we get to the questioning, I would like to hear more about your TDP study and its distribution.

Mr. Attaway.

## STATEMENT OF FRITZ ATTAWAY, SENIOR VICE PRESIDENT, MOTION PICTURE ASSOCIATION OF AMERICA, REPRESENTING THE INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

Mr. ATTAWAY. Thank you, Mr. Chairman, members of the committee.

My name is Fritz Attaway. I am here representing the International Intellectual Property Alliance.

The Alliance is a coalition of eight trade associations that collectively represent the U.S. copyright industries: the motion picture industry, computer software, sound recording, music publishing and book publishing industries. Together these associations represent some 1,500 companies in the United States. The U.S. copyright industries account for over 5 percent of the U.S. gross domes-

tic product and contribute over $34 billion in foreign revenues. These are 1990 figures.

For those of you who caught the Academy Awards last night, I hope you saw my leader, Jack Valenti, who stated that the motion picture industry alone contributes over $4 billion annually in positive balance of trade.

The Alliance first targeted Taiwan as a center of copyright piracy in 1985. The Alliance estimates that in 1992 alone the U.S. copyright industries lost an estimated $669 million due to the piracy of U.S. movies, sound recordings, musical compositions, books and computer software.

These losses result from inadequate enforcement, low penalties which are totally inadequate to deter infringement, massive exports of pirated compact discs and software, pirate cable table television systems which are known as Channel 4's which serve over 1.5 million subscribers. All of these result in huge losses to U.S. copyright industries.

In April of 1992, Taiwan was identified by the U.S. Trade Representative as a priority foreign country under the special 301 provisions of the U.S. Trade Act. In June of 1992, after years of inaction, Taiwan passed a copyright law. Also in June, the United States and Taiwan entered into a Memorandum of Understanding which contains specific commitments regarding intellectual property protection and enforcement. These events culminated over 7 years of continuous and often frustrating bilateral consultations.

There are two vital issues which require immediate attention by the Republic of China: first, Taiwan's compliance with the Memorandum of Understanding and, second, the status of the 1989 bilateral copyright agreement.

If Taiwan does not fully comply with its obligations under the MOU, the Alliance has urged USTR to immediately commence trade retaliation proceedings as permitted under Special 301. We cannot condone the continued theft of our intellectual creativity due to the lack of political will and aggressive antipiracy enforcement by the ROC.

Taiwan totally fails to meet its MOU obligations in several important respects. First of all, the cable TV law and interim cable regulations required under the MOU have not yet been passed. The unauthorized broadcasting of U.S. films and programming continues unabated.

The ROC Government has yet to convict or punish any of the three CD plant manufacturers who continue to produce and export piratical sound recordings.

Because of Taiwan's lax enforcement efforts, piracy of international sound recordings is on the rise. Pirated software is still being exported and commercial photocopying of books, in particular medical books, continues unabated.

In 1989, a bilateral copyright agreement was negotiated but never signed by Taiwan. Only in January of this year did the legislative yuan pass the bilateral agreement. However, it made eight critical reservations. These reservations upset the entire balance of the agreement and in effect gut the entire agreement.

The Alliance does not oppose Taiwan's membership to the GATT. In fact, we support it but we do not support it unconditionally. De-

spite both the U.S. copyright industries and the U.S. Government's best efforts, progress in improving copyright protection and enforcement of intellectual property in Taiwan has been intolerably slow.

Mr. Chairman, you mentioned in your opening remarks that we treat Taiwan as a second-class citizen. Unfortunately, with respect to its copyright protection, Taiwan is a second-class citizen. This needs to change.

The Alliance strongly recommends that the United States oppose Taiwan's membership in GATT until Taiwan demonstrates with specific actions that it will comply fully with all of the obligations it has made to the United States in its June Memorandum of Understanding.

That concludes my statement. I look forward to answering your questions.

[The prepared statement of Mr. Attaway appears in the appendix.]

Mr. GEJDENSON. Thank you.

After all the panelists have had an opportunity to testify, I hope that the witnesses will feel free to debate with one another. Mr. Laux and Mr. Attaway may want to discuss their difference at that point.

Mr. Brewster.

## STATEMENT OF DARYL G. BREWSTER, BUSINESS DIRECTOR, GLOBAL BRAND MANAGEMENT, CAMPBELL SOUP COMPANY; ACCOMPANIED BY BURT WILLIS, GROUP DIRECTOR, GOVERNMENT RELATIONS, CAMPBELL SOUP COMPANY

Mr. BREWSTER. Thank you.

Mr. Chairman and members of the subcommittees, my name is Daryl Brewster. I am accompanied by Mr. Burt Willis and we are both from the Campbell Soup Company. We very much appreciate the opportunity to appear before you today in support of increased soup and other processed food exports from the United States to Taiwan.

Soup is not only good food but it is big food around the globe. More than 200 billion bowls of soup are served every year. Campbell Soup Company is the world's leading soup manufacturer and marketer. The great majority of what we sell is right here in North America. My job is to help soup eaters beyond the continent discover the convenience and quality of a product that I think all of us grew up with throughout our childhood.

We see Taiwan, just as Congressman Manzullo, as a superb market opportunity and export opportunity. In fact, like Green Giant, it is our number one priority. The Taiwanese love soup and broth. They eat soup every day, 10 times more per capita than Americans, and spend more than 15 million hours a week preparing soup. Now with the significant economic growth, the people of Taiwan increasingly want and frankly deserve more convenient high quality soup products at a reasonable price.

Consequently, since 1988, we have accelerated our efforts——

Mr. GEJDENSON. Is there any brand you have in mind for that?

Mr. BREWSTER. A couple. We have accelerated our efforts on the island. We have researched the market thoroughly with Taiwan consumers, talking to hundreds. We have hired and trained a local

Taiwanese management team. We have signed a local distributor. We have gained distribution to over 3,000 stores. We have designed a special Taiwanese label, See Wan Sun would be the pronunciation with our Swanson broth. We support that product with advertising, investing in local media.

And the people of Taiwan have responded favorably. They love the taste of our products, those good all-American chickens, the quality of our products and the convenience of our products. However, they also tell us, like the folks at Green Giant, that they would consume a heck of a lot more product if the price were not so high.

Well, how high? A 14-ounce can of Swanson in the States would run about 65 cents. In Hong Kong, the same product would retail for about 75 cents. But in Taipei, that product sells for $1.15 U.S. or 29 NT. This more than 50 percent increase substantially impacts Taiwan consumer demand. Some of it is due to the transportation and distribution. We can see that with the slight increase from the United States to Hong Kong. But the vast majority is due to the fact that whereas Hong Kong has no soup tariff, there is a 30 percent tariff on the cost, insurance and freight on canned soup in Taiwan.

Pennies and nickels make an enormous difference in processed foods, particularly when you are trying to convert people from homemade behavior into processed food behavior. And the impact of this is evident when you look at soup consumption in Hong Kong and Taiwan. Both places are populated by world champion soup eaters, people eating soup on a regular daily basis, with comparable household incomes. Yet the citizens of Hong Kong consume almost 30 times more canned soup than Taiwan, this despite the fact that there is three times more the people in Taiwan than Hong Kong. Clearly substantial tariff reductions would speed the elimination of this disparity and increase U.S. exports to Taiwan.

We do not believe that Taiwan's 30 percent duty is aimed at protecting local industry. In fact, we have been unable to find any local canned soup manufacturers on the island. We do believe that the high soup tariff is attributed more to the overall structure of Taiwan's trade regime as it applies to all processed food imports rather than a targeted effort in the world of canned soup.

As mentioned by Congressman Manzullo, Taiwan's average tariff on all processed foods is 36.7 percent compared to just 6.5 percent in the United States.

I recently returned from my latest trip to Asia and I am impressed by the extraordinary progress and achievements of the people of Taiwan. It is indeed heartening to see Taiwan moving to take its appropriate place as a member of the GATT. That membership will manifest its importance stature as well as its shared responsibilities.

Taiwan's taking action on its soup tariff as well as other processed foods as part of the GATT membership process will greatly enhance U.S. exports. In fact, according to the latest data, over 95 percent of the soup and broth comes from the United States that moves into Taiwan.

Each time I travel to Taiwan and talk to our people, our distributors and consumers, I am more convinced that opening up the mar-

ket for processed foods and soups and broths will benefit not only Americans, those who raise the food that goes into our soups, supply the other ingredients and process and distribute our products, it will also benefit the people of Taiwan who deserve to discover the value and convenience of more of America's great food products.

Thank you for the opportunity to share these views. If you wish, we will be glad to respond to any of the questions as becomes appropriate.

[The prepared statement of Mr. Brewster appears in the appendix.]

Mr. GEJDENSON. How many cans of soup do you eat a day? [Laughter.]

Mr. BREWSTER. I have only had two so far.

Mr. GEJDENSON. Our next witness is James Arthurs, executive director of Gerber Garment Technologies, Inc. in Tolland, Connecticut.

Mr. Arthurs.

## STATEMENT OF JAMES S. ARTHURS, EXECUTIVE DIRECTOR, INTERNATIONAL DIVISION, GERBER GARMENT TECHNOLOGY, INC.

Mr. ARTHURS. Mr. Chairman, members of the subcommittees.

Founded in 1968, Gerber Garment Technology is a subsidiary of Gerber Scientific, Inc. of South Windsor, Connecticut and is the world's leading manufacturer of computer aided design and computer aided manufacturing systems for the apparel and sewn goods industries. Our systems are used in the areas of apparel design, pattern development, grading, marker making, automated cutting of fabric and materials handling.

While the apparel industry is our major market, accounting for some 70 percent of our worldwide business, our systems are also widely used by the automotive industry for manufacture of car seats, airbags and interior trim.

Through 1980, the prime focus of our business was North America and Europe with a level of approximately $30 million in revenues. In 1980, it was decided to aggressively expand our business and increase our exports and we embarked on a major expansion program in the Asia Pacific region and other regions throughout the world. This was done through establishing a worldwide network of agents and distributors with some wholly owned subsidiaries.

Since 1980, we have grown to the point that in 1992, exports represented about 70 percent of our business and at the retail level annual revenues are now approximately $200 million and we have almost 8,000 systems installed in more than 80 countries around the world.

Taiwan has thousands of import/export agents, everything from one-man roadshows to experienced and professional companies. These agents will often deal in anything from low cost, low quality goods to expensive high tech equipment and care should be taken in the selection process of agents.

While not unscrupulous, many are opportunistic, claiming to have good contacts with a number of potential customers and optimistically forecasting the sales potential. The so-called good con-

tacts can sometimes turn out to be just a few old school friends or relatives in junior or middle management positions at two or three companies that may or may not be related to your business.

Product advertisements in American or European magazines are also likely to elicit inquiries from Taiwanese agents requesting representation. It is essential to properly research specific markets and appoint the right agent rather than jump at the first opportunity based on short-term potential and glib promises.

It is not too difficult to do the job right in Taiwan. There are dozens of industry specific associations, federations and institutes and these organizations can often provide detailed information on the structure, organization and condition of the specific industries. They will be able and probably willing to advise the names of major potential buyers and contacts and they will have a good idea regarding the local suppliers to that industry which could be the first step in finding an agent.

The American Institute in Taiwan which takes care of U.S. relations in Taiwan can assist through its commercial section in identifying the associations, federations and institutes and arranging for introductions and appointments. AIT officers will also be a good sounding board on your progress.

In our own case, we contacted the Taiwan Textile Federation, Taiwan Garment Manufacturers Association and the China Textile Institute. The latter is a research organization dedicated to industrial training, development of manufacturing techniques and testing of new methods of machinery. CTI was actually our first buyer in Taiwan.

As our agent we appointed a small company specializing in electronics and set about teaching them the apparel industry, together identifying the 10 largest apparel manufacturers as our major prospects. About 5 to 6 years ago, we determined our business was growing at a faster rate than our agent was able to maintain and we orchestrated a buyout and transfer of our business line by and to a larger, more established company.

For a while, there was a difficult period because the Taiwanese buyer prefers continuity and places great emphasis on the personal relationships that are developed. We ensured a friendly transfer of the business and with relatively few hiccups we were back on track within about 12 months with GGT playing a major role in establishing the credibility of our new agent through technical support and personal visits by regional and headquarters sales management.

While good local agents are available in Taiwan, it is essential to show the face of the home office or manufacturer. Buyers need to be nurtured and confidence needs to be built in the manufacturer or seller as well as the local agent. If the product requires post-sales support, you must ensure the agent is well trained and that you provide follow-up training and support, especially in emergency situations.

Lack of proper technical support can have a disastrous effect on future business, as bad news travels fast with the industry associations often being the medium for dissemination of such news.

While most business is conducted on a letter of credit basis, it is also necessary to be flexible with standard terms and conditions to suit the local environment, buyer and agent.

Taiwan is a major exporting country, with exports accounting for over 40 percent of GNP, electrical machinery, textile and apparel, general machinery and equipment making up about 50 percent of all exports.

Taiwanese industry and especially the apparel industry has been under increasing competitive pressure from other countries in the region over the past 7 to 8 years. This has been primarily due to a strong Taiwan dollar which has revalued from 40-to–1 to 25-to–1 since 1985, coupled with rapidly escalating labor costs and to a somewhat lesser degree labor organization.

In addition, the apparel industry, which is labor intensive, has suffered from a movement of labor into high tech and capital intensive industries where higher pay and better conditions exist. The Taiwan Government is encouraging this movement, promoting investment in these industries through tax credits and other assistance programs.

While high tech industries continue to grow, providing many market opportunities for U.S. companies involved in production methods and production equipment for these industries, the apparel industry has stagnated as apparel production has migrated to lower cost countries such as China, Thailand, Indonesia and lately Vietnam.

In order to protect their businesses, many Taiwanese apparel companies are investing offshore in subsidiaries, joint ventures or simply subcontracting the production of apparel to fill their orders. Such investments are in China, Southeast Asia, Central America and Vietnam where Taiwan is currently the largest foreign investor with over $1 billion.

The Taiwanese apparel industry is often referred to as being in sunset status. Nevertheless, apparel production in Taiwan is surviving through better production techniques, greater productivity, and improved quality at lower costs. The industry associations are encouraging development of own brand manufacture as opposed to the current contract manufacturing for foreign buyers. OBM brings added value to the exported product.

All of these things enhance the need for factory automation where all of GGT's systems are targeted. Recently GGT has been cooperating with a quasi-governmental organization, Central Satellite Development, and CSD has sponsored and paid for seminars by GGT to promote factory automation in Taiwan and they have recently invited us to participate in a second round of such programs.

Another ingredient to consider when selling to Taiwan is the need to tailor products or develop products specifically for the Taiwan market and instruction manuals, if required, need to be translated, a job your agent can assist with.

GGT recently introduced a Chinese language CAD system, recognizing that the smaller the company we sell to the less likely it is that the English language computer screens and prompts are acceptable. We also offer a lower height option on our fabric cutting

systems to accommodate operators who tend to be shorter in height. Again, flexibility is the key to success.

GGT has from time to time availed itself of assistance provided by the Commerce Department, State Department, Export-Import Bank or Trade and Development Agency in relation to its business in other countries. However, we have to date never identified a need in relation to our business in Taiwan.

In summary, I have been visiting Taiwan for almost 20 years and the changes over the last 10 years have been dynamic. New construction abounds. Positive political changes have taken place and business with mainland China has commenced and grown substantially. Per capita income has increased dramatically and the country has evolved into a consumer oriented society. There is a greater awareness of and more attention being paid to rights of patents, trademarks and copyrights.

There is no doubt that Taiwan is an expanding market for U.S. companies which are dedicated to exploring export opportunities and are flexible in their approach and application of both products and business terms and conditions.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Arthurs appears in the appendix.]

Mr. GEJDENSON. Thank you for that excellent testimony. I really appreciate hearing that eastern Connecticut accent.

Mr. Howard. James E. Howard, vice president and general manager of Paramax Systems Development, Great Neck, New York.

## STATEMENT OF JAMES E. HOWARD, VICE PRESIDENT AND GENERAL MANAGER, SYSTEMS DEVELOPMENT DIVISION, PARAMAX SYSTEMS CORPORATION

Mr. HOWARD. Mr. Chairman and members of the subcommittees, I am Jim Howard, vice president and general manager of the systems development division of the Paramax Systems Corporation located on Long Island in Great Neck, New York.

Paramax, a $2 billion business which predominantly does business with the Department of Defense, is a subsidiary of Unisys Corporation, the nation's third largest computer manufacturer.

I appreciate this opportunity to testify about the market in Taiwan and about how the U.S. Government can assist the defense companies in that marketplace. Unlike some of the others that have spoken, I am very happy with the business that we do in Taiwan. We have excellent relationships there.

My comments will specifically address Paramax involvement in Taiwan but I want to note also that our parent, Unisys Corporation, also operates a subsidiary in Taiwan for our commercial information systems business.

Paramax develops and produces both defense and nondefense electronic systems. Currently we have both a foreign military sales contract through the U.S. Navy and a direct commercial contract to provide high technology systems, logistics, software, program management, engineering and support services for the integration of naval electronic systems for Taiwan. These programs are very substantial elements of our international defense business.

Our ability to produce quality systems within budget and on schedule has created opportunities for us with other agencies of the Taiwan Government. They trust us as a supplier and are therefore more willing to consider us for other business. We are now conducting discussions for a number of potential contracts with Taiwan for both military and commercial systems. These include weather systems, an electronic sweep for a new oceanographic research ship, production of a submarine rescue vehicle and other defense systems.

We also see possibilities, although we are not actively involved in negotiations currently, for other Paramax high technology systems such as air traffic control and highway traffic systems.

In the early 1990's, Taiwan announced a program to spend some $300 billion NT in infrastructure improvements over a 6-year period. This is exclusive of defense spending. While recent news articles indicate that the spending program may be somewhat reduced, we are still looking at a potentially huge market in Taiwan for these projects, many of which involve significant levels of high technology.

We estimate that total new business to Paramax from Taiwan could range into the hundreds of millions of dollars through the year 2000. In short, Paramax has already experienced considerable success in selling products in Taiwan and we will continue to aggressively pursue that market.

Succeeding in Taiwan requires a definite sensitivity to the culture and language of the region. And due to these cultural and language differences, we have found it necessary to have local representation in Taiwan, as well as having our own in-country employees. Recently, Paramax appointed a vice president of business development in the region to help us better focus on Taiwan and other Pacific Rim countries.

In contrast to the U.S. Government's arm's length policy, the Taiwan people place a heavy emphasis on developing personal relationships and trust before actually doing business. It took more than a year from our initial meetings in Taiwan until we signed our first contract, convincing us that personal relationships, persistence and perseverance are required for success.

The Taiwan Coordination Council for North American Affairs has been of significant help to us and the American Institute in Taiwan has provided us with administrative assistance regarding security clearances and government-to-government transfers of classified material. Both organizations helped us to better understand the Taiwan market and those customers. Despite that, we would like to see our Government helping U.S. firms in a more proactive way by serving as a strong advocate for U.S. products and companies, as is done by many of our international competitors, particularly the French.

There are other actions that the U.S. Government can take to assist us and other companies in selling high technology and defense systems in Taiwan. U.S. companies are in tough and intensifying competition with European and Japanese companies for both military and commercial markets. We would like to see a reexamination of the Taiwan Relations Act of 1979 and the annual spending

caps placed on the sale of military equipment to Taiwan by the United States.

No other country has such a limitation and it almost derailed our proposal for the oceanographic research ship. While that ship is commercial in nature, the initial plan was to designate it a military procurement and it took a number of discussions to resolve that situation, significantly delaying the program.

We also believe that the geopolitical situation has changed significantly since 1979 and the reason for that limitation is not currently valid.

Next, while the U.S. Government has been increasingly supportive of trade with Taiwan and other nations, we are still at a disadvantage when compared with other countries. Many governments support their industry with minister-to-minister level visits, consultations, and direct subsidies. Certainly high level government support and contacts are extremely helpful and we recommend strongly that the U.S. increase this kind of support.

But more important in providing U.S. defense contractors with the ability to compete on an equal footing with foreign competitors would be a strong U.S. Government program to provide loan guarantees for sales of major defense systems to our allies and other friendly countries.

We, along with most of the U.S. defense industry, recommend that a new guarantee facility for defense products be established in the Department of Defense or the State Department using credit guidelines similar to those of the Export-Import Bank.

If I may quote from a recent letter from the Aerospace Industries Association to Defense Secretary Les Aspin, signed by the chief executives of a number of leading U.S. defense companies, and I quote, "A decision to include an export credit guarantee facility for defense products as part of a defense transition program is one that would be supported by the entire industry. Each $65 million in budget authority would allow the Government to provide $1 billion in credit guarantees involving roughly $1.2 billion in sales. This in turn would generate at least 35,000 jobs and $250 million in tax revenue at the federal and local level." I have included the complete text of the letter in my written testimony.

As a defense supplier, we feel these are the most important steps that the U.S. Government could take to help defense companies compete internationally, as well as help achieve the longer term objectives of defense conversion that are essential if we are to help offset the decline in U.S. defense spending.

That concludes my statement, Mr. Chairman.

I thank you and the two subcommittees for allowing me this opportunity and I look forward to your questions. Thank you.

[The prepared statement of Mr. Howard appears in the appendix.]

Mr. ACKERMAN. If there is no objection, I will put my opening statement in the record.

[The opening statement of Mr. Ackerman follows:]

OPENING STATEMENT OF HON. GARY L. ACKERMAN, CHAIRMAN OF THE SUBCOMMITTEE ON ASIA AND THE PACIFIC

The House Subcommittee on Economic Policy, Trade and Environment and the Subcommittee on Asia and the Pacific meet today to explore the nature of U.S. eco-

nomic and trade policies related to Taiwan, and the implications of these policies for U.S. firms.

Within the last 40 years, the Republic of China on Taiwan has become an economic powerhouse and, along with Singapore, Hong Kong, and South Korea, is leading the world in economic growth.

Its per capita income has increased over 175 times, from $48 in 1952 to $10,000 in 1992. Such impressive economic development has not only increased the standard of living on the island, but also the levels of expectation, which, in turn, have contributed to gradual social change and political liberalization.

In 1987, under pressure from the United States, Taiwan pursued economic liberalization by reducing tariffs and quotas, focusing on capital intensive industries, easing financial restrictions, creating new laws for intellectual property rights, and facilitating entry of foreign firms into the ROC services market.

Taiwan's high level of foreign exchange reserves ($82.5 billion) and its ambitious $300 billion, 6-year development program for the 1990's have attracted strong U.S. attention.

Many U.S. leaders have encouraged Taiwan enterprises to invest in the United States and are interested in getting a share of the work involved in Taiwan's new development program. However, the U.S. trade deficit with Taiwan continues despite Taiwan Government efforts to encourage more purchases of U.S. products and to promote diversification of Taiwan's export markets.

Since Taiwan has become our sixth largest trading partner, and may surpass Great Britain next year, it is the United States' interest to encourage further economic development and political stability. For the United States, this will result in better trade relations, more business incentives for the private sector and, politically, the goal of democratization. But this can only be achieved if U.S. businesses in Taiwan are given the same market access as Taiwan companies have in the United States.

We look forward to hearing from our distinguished panel this afternoon. You may be assured that your full statement will appear in the printed record of this hearing, so we ask that you try to limit your opening remarks to 5–7 minutes.

Mr. ACKERMAN. I would like to begin by talking about a statement made by Mr. Laux, if I can, and that was we should not wait for China's entry into the GATT before dealing with Taiwan.

Is that a unanimous opinion?

Mr. Attaway.

Mr. ATTAWAY. With respect to both the Taiwan and the People's Republic, we take the position that GATT membership should await adequate protection of intellectual property and as of today, I do not think either country would meet that condition.

Mr. ACKERMAN. Mr. Brewster.

Mr. BREWSTER. Yes. We think they are independent decisions. We support the GATT membership for Taiwan, assuming that it is contingent upon getting the tariffs at appropriate levels.

Mr. ACKERMAN. Without consideration of whether or not China——

Mr. BREWSTER. We see them as independent.

Mr. ACKERMAN. So whoever is ready first?

Mr. BREWSTER. Yes.

Mr. ACKERMAN. Mr. Arthurs.

Mr. ARTHURS. I would certainly say whoever comes first. They are entirely independent of each other and neither should be tied.

Mr. ACKERMAN. Mr. Howard.

Mr. HOWARD. I agree.

Mr. ACKERMAN. Mr. Laux.

Mr. LAUX. I would endorse what's been said. I am certainly not suggesting that Taiwan be permitted to enter the GATT before they have met the intellectual property requirements for protection. That should be done. But once they are ready, it seems to me that GATT is not a political body, it is a club of traders, and the

largest trader now outside the GATT is Taiwan. And, as I say, there is precedent with Hong Kong's entry for entities that do not claim to be the government of all China and I would hope Taiwan would get in when they are ready.

My understanding from the USTR is that that could be some time this year, whereas China may take 2 or more years before it is going to be ready.

Mr. ACKERMAN. Any other conditions that you would place upon Taiwan's entry into the GATT?

Mr. LAUX. I do not think so. My understanding——

Mr. ACKERMAN. You would not want to lower the tariff on soup, for example, or anything like that?

Mr. LAUX. Well, I think that is part of it, that their agricultural tariffs are going to have to come down and they are high on some foods.

Mr. ACKERMAN. How do we do that? How do we get them to have their tariffs come down? What do we use?

Mr. LAUX. Well, that is a good question. I do not know if Campbell Soup has some—first, I think we need to understand their problem. They have a concern about their agricultural sector which is emotional. It is a national security thing. It is the fact that many retired servicemen have been encouraged to go into the mountains and start peach orchards and things like that and they are just not competitive in the international market. They have a problem in bringing this down but we need to keep continual pressure on them to bring it down.

They are not going to be competitive in the world in agricultural products except for a very few exceptions like pork. And most of their agriculture will have to go eventually by the boards in world competition.

Mr. ACKERMAN. Is it really more emotional and political than American workers losing their jobs?

Mr. LAUX. I am out of my depths here, Mr. Chairman, but there is a political element there, certainly. The agricultural constituency is a strong one in Taiwan.

Mr. ACKERMAN. Mr. Arthurs, maybe you could help me understand something. You mentioned something about being derailed until you got back on track with the understanding of the importance of personal relationships in business dealings.

Mr. ARTHURS. Absolutely. I think the personal relationships and the trust that you develop with customers in the process of selling there. First, it is a long period. You do not walk in and sell within a week. You develop those relationships over a period of time, as much as 2 or 3 years. And changing an agent unsettles those relationships.

And so you have to convince your buyers in Taiwan that you are making the right decision, it is in their interests, that you have carefully taken care of your existing agent, that you are not just firing somebody and taking somebody else on. It has to be seen as a smooth transition and as friendly as possible. Absolutely.

Mr. ACKERMAN. Help me to understand something. Why are all these things so emotional when you buy and not emotional when you sell?

Mr. ARTHURS. I think it is the cultural differences. The Oriental in general, not just Taiwan, the need to develop relationships with people is felt far stronger in the Far East.

Mr. ACKERMAN. No, I understand the whole emotionalism involved, or I try to, but why is it involved only when you are making a purchase and not when you are making a sale?

Mr. ARTHURS. I think the Taiwanese themselves do——

Mr. ACKERMAN. Why are not the Taiwanese so emotionally concerned about developing a relationship when they want to sell somebody? If somebody says I will buy it, why do they not slow the process down, say you cannot buy it until you really get to know me?

Mr. ARTHURS. I agree. If somebody walks through the door and offered to sign my contract the first day I went there I would sign it. I would take their money.

Mr. ACKERMAN. No, I understand. And most business people understand that. Why are we so forgiving that it is a cultural thing on one end of the bargain and not on the other?

Mr. ARTHURS. I think every country in the world has its own cultural standards. They are different from country to country, there are many similarities. I do not think there is a comparable one here in the sense of selling to the United States, so as the United States being the buyer.

Mr. ACKERMAN. Well, I am not sure you understood my question because I do not know that I got the answer.

The question is basically this: If you are saying that it is a cultural difference before somebody agrees to buy your product, an American product or anybody else's product, I am sure it is not just American products but that is our concern right now, if there needs to be a process of acquaintance and getting to know you and trust you in order to buy from you, why is there not a cultural need on the part of the same culture, if you will, to have that same emotional experience before selling us a product?

Mr. GEJDENSON. Would the gentleman yield?

Mr. ACKERMAN. Sure.

Mr. GEJDENSON. What we might term networking in this country we view more personally when we encounter it elsewhere in the world. It may function differently depending upon the development stage of the economy, but I frankly do not think it is dissimilar.

Perhaps it is more dominant in the Pacific Rim and Asia than it is in the United States, but if you consider American businesses, oftentimes there are relationships between the chairman of the boards or the heads of corporations. The choices of where you can buy or sell goods and services are certainly numerous. Even in this country, however, price being similar and quality being similar, people will choose suppliers that they are familiar with.

Mr. ACKERMAN. That is a given and that is understood but the problem that comes in is when you have the makings of a deal and your product is superior at times and your price is cheaper, you still cannot make the deal. You can do that in the United States or in a lot of other places without the networking.

Mr. GEJDENSON. I do not know that that is the case in Taiwan.

Mr. ARTHURS. Our products are generally more expensive than our competitors from Spain, France and Japan.

Mr. GEJDENSON. And better?

Mr. ARTHURS. And better quality and more productive.

Mr. ACKERMAN. How do we address the tariff problem?

Mr. ARTHURS. We do not have one.

Mr. ACKERMAN. Mr. Howard, do you have a tariff problem?

Mr. HOWARD. No, we do not.

Mr. ACKERMAN. There is no tariff problem on any defense related good?

Mr. HOWARD. No. There is no problem.

Mr. MANZULLO. Would the gentleman yield?

Mr. ACKERMAN. Yes.

Mr. MANZULLO. My congressional district is known for agricultural products and also for making nuts and bolts so, Mr. Brewster, my district is interested in Taiwan on everything from soup to nuts, literally and physically.

My question is in terms of this so-called cultural distinction over peas and corn. I disagree that it is a cultural difference because in America we have a cultural difference also that farmers want the highest price possible and so do the farmers in Taiwan. The issue is what do we do with the 36 or 37 percent tariff?

Mr. Brewster.

Mr. BREWSTER. We have got to get it down. That is why we are obviously here. And allow us to compete on a fair trading field.

Mr. MANZULLO. Do you suggest that it be a quid pro quo before entry into GATT? Should the tariff be reduced to 7 percent?

Mr. BREWSTER. Yes.

Mr. MANZULLO. And is there any precedent for that in any other product?

Sam, does anybody know of any precedent for lowering tariffs before a country becomes a member of GATT?

Mr. Chairman.

Mr. GEJDENSON. I believe it is a normal function of the negotiating process for entry into the GATT. It is certainly not a simple process, as we have all learned through the ongoing Uruguay round where it is not Taiwan's agricultural distinctions but European agricultural supports with which we have problems.

Mr. MANZULLO. So first would come the entry and then the negotiations?

Mr. GEJDENSON. No, I think it is the negotiations that lead to the entry. As countries attempt to enter GATT, intellectual property rights, agricultural tariffs as well as other tariffs are the conditions that are negotiated. They determine how member nations vote on letting a country enter the GATT. There has got to be some compromise on both sides. We may have to give up some of our protections at various stages of the negotiations.

Mr. MANZULLO. Does anybody have any idea where we are in those negotiations?

Mr. LAUX. I would just add a comment.

Mr. ACKERMAN. Yes.

Mr. LAUX. I just would point out that despite the high tariffs, Taiwan is our fifth largest consumer of agricultural products in the world. That is not an excuse for these problems. And I think President Lee is quite personally aware of where the high tariffs are in agriculture. I have discussed these with him and he had gone

through the list and pointed out some of them where he knows they are too high.

One of the things I would suggest, in addition to the pressure that we put on in negotiations, is we are simply bringing attention to the issue such as this hearing does. With the new democracy in Taiwan, with the free press and with the state of television such as you see right here, Taiwan television companies, educating the public to the fact that they could buy Campbell Soup at less than $1.15 a can is going to buildup a consumer constituency.

Mr. BEREUTER. Would the chairman yield?

Mr. ACKERMAN. Yes.

Mr. BEREUTER. Thank you for yielding.

That is only a small part of the story, Mr. Laux. Those agricultural imports from the United States are largely commodities.

Kelloggs, for example, is facing a 40 percent tariff on breakfast food there. This is despite the fact the 1989 agreement on the part of Taiwan said they would bring those tariffs down to today, 1992 in fact, to 2½ or 3 percent. The gentleman representing Campbell Soups here is suggesting despite the fact that there are no visible soup producers in Taiwan and that Hong Kong with a smaller population is consuming 30 times as many soups, they are faced with a 30 percent tariff. It is the value-added products that we are shut out on, and it is one of the reasons why Taiwan has a $10 billion trade surplus with us.

The Taiwanese, I am pleased to say, come to this country and buy raw goods, commodities. I am happy to see them purchase commodities sold from my State. We would also like to see some value-added products go into those markets. It would help their consumers and we would not have trade friction if they bought some value-added products by bringing those tariffs down from their current average of 30 and 40 percent, to 2½ percent, where our tariff is on imported breakfast food today.

Thank you for yielding.

Mr. ACKERMAN. Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman.

Let me begin with you, Mr. Laux. Please outline the kinds of changes which you believe are reasonable for the United States to achieve in improving our relationship with Taiwan.

For many years, my concern was that it was a nondemocratic government and, therefore, it did not make sense for us to move forward with a government that was not in power by the democratic choice of its own constituency. This has clearly changed.

There is no question that for issues such as missile proliferation, the United States needs to have some cooperation from the mainland. However, it is also clear that the mainland has gone primarily in the wrong direction whereas Taiwan has gone in the right direction.

What actions would you take as far as government-to-government relations and in what order would you like to see these changes occur?

Mr. LAUX. That is quite a question.

Mr. GEJDENSON. You may respond to some of it now and then send me the rest in writing or you may answer it all later if you prefer.

Mr. LAUX. Before I do that, could I make one correction to an earlier testimony that I think is important? A small point but——

Mr. GEJDENSON. If you want to dispute one of the other panel members, that is fine with me.

Mr. LAUX. In Mr. Howard's otherwise excellent testimony, he mentioned he would like to see a review of the 1979 Taiwan Relations Act which puts a ceiling on what we sell in the way of defense supplies to Taiwan. It is not the 1979 Taiwan Relations Act, it is the 1982 Arms Sale Communique with China which puts the limits. The Taiwan Arms Sale Communique on the other hand says we will sell Taiwan what Taiwan needs for its defense.

Mr. GEJDENSON. Correct. In 1982 we essentially said that we would not change the balance of power. Is that correct?

Mr. LAUX. That was what President Reagan said was the underlying reason for which he signed the 1982 communique. Basically, the communique says we will not sell them anything superior in quality or greater in quantity that we had in the past. And how that was interpreted led to some guidelines which are giving him and the other defense companies that are members of our council a problem which we are very sympathetic with but I just wanted to correct the record.

Mr. HOWARD. Mr. Laux is correct. The 1979 set the framework that the 1989 communique used as the basis for saying we will give them no more defense material than we are currently giving them and we will start a gradual decline by reducing the ceiling each successive year until we sell in effect no defense material to Taiwan.

You are correct it was the 1982 joint communique that established that declining ceiling, rather than——

Mr. ACKERMAN. Will the gentleman yield on that?

Mr. GEJDENSON. I would be happy to yield.

Mr. ACKERMAN. How close to that cap are we in fact?

Mr. HOWARD. I do not know. I cannot answer that question.

Mr. LAUX. The general interpretation of the cap was to take the sales of 1979, apply an inflation factor to it for 1982 and use that as a baseline and it was basically—it was $820 or $840 million a year. And we have lowered that cap by $20 million a year roughly. That is the so-called ceiling on arms sale to Taiwan.

Mr. ACKERMAN. What does the F–16 sale do to that cap?

Mr. LAUX. That is regarded as a one-time sale outside that cap.

Mr. ACKERMAN. Outside the cap. So if we only make sales outside of the cap, we have de facto——

Mr. LAUX. We could take care of the problems like the one that Unisys has got here.

Mr. ACKERMAN. I think we can find a solution to your problem.

Mr. LAUX. Back to Chairman Gejdenson's question, I am not advocating that we establish official diplomatic relations with Taiwan or anything like that. I think that the political framework that we have of having recognized the People's Republic of China is probably the only livable and workable one that we have.

But I do not think that sending Assistant Secretaries from economic departments or cabinet officers, other subcabinet officers, implies that we have changed our view of political recognition of China.

On the contrary, we can explain that to Beijing very easily as a very necessary act in dealing with our sixth largest trading partner. And I think the fact that we have had this——

Mr. GEJDENSON. And because Taiwan is a significant trading partner of the mainland as well.

Mr. LAUX. But I think that by imposing this restriction on ourselves we have inhibited our ability to persuade Taiwan, at top policy levels, of the wisdom of some of the changes you are suggesting need to be made here.

Mr. GEJDENSON. Let me ask you a couple of other quick questions before my time runs out. I would like to get to a few other members.

First of all, is U.S. policy at this point to preclude Taiwan's entry to the GATT until the PRC enters the GATT? Is that our official policy, in your opinion?

Mr. LAUX. My understanding is we have not formulated an answer to that.

Mr. GEJDENSON. Is it your opinion, therefore, that there is no position at this point?

Mr. LAUX. I do not think there was any secret understanding between the United States and China when China in effect acceded to the idea that Taiwan—that a working group would be formed in the GATT for Taiwan, that that would happen. That is a question each member of the 108 members of the GATT is going to have to deal with on their own.

Mr. GEJDENSON. Mr. Arthurs, let me ask you a couple of quick questions.

In the time you have worked with sales in Taiwan, is it your sense that it is easier today or more difficult today to do business in Taiwan?

Mr. ARTHURS. I would say it is easier today. They have developed more, there is more cash around. I think that is evident by the reserves. They have become involved into really the global community compared to before and I think it is a lot easier.

Mr. GEJDENSON. Your company has had problems in the past protecting your intellectual property rights when other governments and corporations copied your products. Have you encountered this kind of problem in Taiwan up to this point?

Mr. ARTHURS. We had a small affair in Taiwan maybe about 10 years ago. It lasted about 6 months and we were able to persuade the people not to continue. We have patent protection in Taiwan. It is not as strong as other countries because most of our major patents were filed many years ago when we were a fairly small company and we did not have the funds to do worldwide filing. But we do have some protection.

We did not use particular patents in this case. Our problem tends to be more competitors in other countries, France and Spain in particular, who are infringing our patents and selling into Taiwan.

Mr. GEJDENSON. Then it is actually GATT partners that are infringing on patents in your areas.

Mr. ARTHURS. Exactly. And we recently won a case here in Atlanta against a French company.

Mr. GEJDENSON. And, Mr. Attaway, your problem with intellectual property protection is that Taiwanese companies are illegally copying discs and movies? Is that the current situation?

Mr. ATTAWAY. That is correct.

Mr. GEJDENSON. Is this happening in Europe as well?

Mr. ATTAWAY. Unfortunately, it is happening around the world.

Mr. GEJDENSON. Does it happen in the United States?

Mr. ATTAWAY. Of course.

Mr. GEJDENSON. Would you say that the difference is that in the United States, when the government locates the perpetrators, it takes significant action.

Mr. ATTAWAY. That is right. The difference is that the Government of Taiwan has evidenced a very high tolerance for piracy and what we are trying to do is create the political will to eliminate piracy or at least get it under control.

Mr. GEJDENSON. You say the Taiwanese Government at this point is not taking this issue seriously.

Mr. ATTAWAY. Not seriously enough. Yes, sir.

Mr. GEJDENSON. Have there been any prosecutions of the pirating of tapes or CD's in Taiwan?

Mr. ATTAWAY. There have been prosecutions. Every year around April we see a dramatic increase in the number of intellectual property prosecutions and raids against——

Mr. GEJDENSON. Why in April?

Mr. ATTAWAY. Because the Special 301 decision is made on April 30. Unfortunately, on May 1 of every year, we see this process take a nosedive and we do not see much activity until the next March. We are trying to achieve a more permanent solution to this problem.

Mr. GEJDENSON. A long-term approach.

Thank you all for your testimony.

Mr. Brewster, you probably will help Campbell Soup sales both here and Taiwan with your testimony today.

Mrs. Meyers.

Mrs. MEYERS. My understanding, then, from what you all have said is that our major problems are with intellectual property rights and with value-added food products and I presume primarily this is true because of an interest in protecting agriculture. They do not have any soup manufacturing businesses themselves, but this is an attempt, then, to protect agriculture in Taiwan.

Mr. BREWSTER. One would guess so, although again, it is like the breakfast cereals. In many cases, we are not facing competitive products there but it is just sort of, I think, an anachronistic barrier that has been up for years and need to be improved and brought down as they move into the GATT.

Mrs. MEYERS. It struck me as unusual because usually when there is a high tariff it is an attempt to protect an individual industry within a country and yet you said there is none of that industry, so I see it as a woman's issue. I think I must stand in solidarity with the women of Taiwan and liberate them from having to make homemade soup.

Mr. BREWSTER. Absolutely. That is right. [Laughter.]

Mrs. MEYERS. Thank you very much, Mr. Chairman.

I would like to ask one further thing.

Mr. GEJDENSON. Mr. Laux, did you want to comment on that same question?

Mr. LAUX. I simply wanted to add, yes, that while we have focused on the agricultural tariffs and the intellectual property right problems here, there are barriers in other areas. One is telecommunications, one is the whole financial services market, the equal treatment for insurance companies. Another is the petroleum products area. They do not allow any foreign companies to have gasoline stations there. Another is construction licenses. There are other areas. I have listed a whole series of them in my report.

Mr. ACKERMAN. Will the gentlelady yield for one moment?

Just on this issue, how much money is involved in this tariff? Just on soups.

Mr. BREWSTER. Well, it would be 30 percent of the product. We think that the sale potential for Taiwan is over $50 million U.S. just for Campbell.

Mr. GEJDENSON. You are talking about $17 million?

Mr. BREWSTER. Well, right now we sell about $1 million. We think that is preventing us from selling additional items because it keeps the price too high for consumers. So consumers are prevented from buying the products, as they have told us, our prices are too high. Why is it too high? The big reason is the tariff.

And part of your previous question, Chairman Ackerman, there has been precedence, both Mexico and Venezuela did reduce tariffs on a number of products prior to recently joining the GATT. So other countries have done that in advance of joining and so what we see is consumers are prohibited from buying the products or buying as frequently as they would like because the price is too high. And you have that time/price tradeoff.

Mr. ACKERMAN. In answer to the question, is there no suspicion that the tariff is high because tariffs could make the economy healthy? Is it not a revenue enhancer for the government?

Mr. BREWSTER. It seems like a lot of revenue.

Mr. GEJDENSON. If your company is getting healthy selling soup and people are getting healthy eating your soup and the government is making a third of what you are selling by doing nothing except letting you do it, is not the government getting healthier than everybody else?

Mr. BREWSTER. There is a little of that although they are really limiting the total sales of those soup products because they are keeping the prices at a rate where people are not going to tradeoff that half an hour they could save every day in making soup for the couple of minutes it takes to make a can of soup.

Mr. ARTHURS. I do not think it is there as a revenue enhancer. I think it is partly the historical strategic situation of an island mentality and its relations with China where they wanted to be self-sufficient in food and therefore they encourage the local farmers.

I think it is a very, very complicated issue.

Mrs. MEYERS. Mr. Chairman, I would like to ask, then, finally, are these tariffs and barriers a holdover from the old government? Will the elections of 1991 and 1992 make a difference or have they made a difference at all?

Mr. ATTAWAY. Well, I will jump in here. I am certainly not a student of the Taiwan Government. However, in our case, I think that lack of intellectual property is a historical holdover.

It is an issue that has been in transition for a number of years, as is often the case as a country goes from an undeveloped to a developed state of economy and Taiwan has simply not finished that transition and we are trying to encourage it to do so as quickly as possible, join the group of developed countries in this world that protect intellectual property. That is absolutely necessary today for any advanced economy. There must be protection of patents and trademarks and copyrights, intellectual property which is essential for a developed society today.

Mrs. MEYERS. Well, I am agreeing with what you are saying. I am just saying that in 1991 and 1992 the elections certainly made the government more widely representative of the population and that I thought that perhaps that would bring about some change in that attitude.

Mr. LAUX. Could I just add a point that has been whispered to me?

My understanding is that once Taiwan's application for the GATT has been accepted, countries can no longer have bilateral negotiations with Taiwan on tariff matters. That has to be done through the GATT process and this is apparently going to begin on agricultural matters some time this coming April.

But that simply emphasizes to me the importance of seeing Taiwan get into the GATT and to use that. We have been carrying in effect the load for most of the world. We are the ones that have put the most pressure on Taiwan to make the concessions they have.

So the ill will where it exists for us being the big brother beating them up on some of these issues will be multilateralized by this process of GATT and it is a one-time opportunity to solve many of the problems we have discussed today in the negotiations that will be multilateral.

Mr. ACKERMAN. Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

First of all, I would like to make sure I associate myself with many of the remarks, although I was not here when Mr. Laux spoke. We have worked together in the White House and I have read his testimony and believe many points that he made were on target.

That does not take away from the points Mr. Attaway is making and I think that we can see there is not a contradiction between what they are saying but their testimony is running parallel.

Let me note that I have visited Taiwan on several occasions. The first time was when I was 19 years old and I have returned several times to see the tremendous progress that they have had on that island over these last two decades. And I think it behooves us to acknowledge that the progress we have seen on that small island is exemplary and could be used as an example for other developing countries, both in terms of economics and in terms of political progress.

For example, the economic issues that we face today, in 1987, there was a trade imbalance between our two countries of $16 bil-

lion. Today, that trade imbalance has been brought down to $9 billion. I think that reflects a positive attitude among the leadership in Taiwan, which I certainly saw, and it is a leadership that seems to be dedicated the principles of free trade. Not say that any country lives up to its principles but it seems that they are trying their best to head in that direction.

If there was any summary that we could make today it might be let us get on with it and in terms of the Republic of China, that means let us get on with it in having the reforms in the tariffs against some of our food products and get on with it in respecting the intellectual property rights of Americans.

On the American side, let us get on with it means let us make sure these people who are dynamic enterprisers who have so much to contribute are part of the GATT process.

When we really look and see what is happening with this small island of—I believe it is 20 million people, as compared to all of mainland China, I believe that actually the Taiwanese import more American products in Taiwan than all of mainland China imports.

Now, is that correct? Am I correct in that?

Mr. LAUX. Twice as much.

Mr. ROHRABACHER. Twice as much. So to the degree that we think we have problems with this group of people, and they are a fine group of enterprising people and you would expect them to be hard-nosed bargainers, that is what they are doing, they are bargaining and they are negotiating. But to that degree, when you note that they already are importing twice as much as the entire mainland, it puts this problem in perspective.

I am not suggesting that we should compromise the position of our own people. It is our job to represent the interests of the American people.

But I believe that there is an attitude in the Republic of China and I believe there is an attitude here where we could work together with democracy. We could work together with people to iron out the problems and in the intellectual property rights area, this is a major challenge. It is a major challenge and we have got to make sure we cover that. In California, it is an important industry. It is an important industry in California. And I would just like to add those words.

One note, I was in Taiwan, there were apples all over the place, American apples. They were all over the place. Taiwan used to grow apples and they permitted Americans to bring their apples in and there was a lot of dislocation taking place and I think that there has been at least some acknowledgment over there that they need to make some changes and they are willing to work with us, so I guess I am just saying get on with it and then if there is any comment to my comments, I welcome them.

Thank you very much.

Mr. ACKERMAN. Thank you. I do have a question.

Is that twice as much vis-a-vis the mainland, is that consumer goods only?

Mr. LAUX. In 1992, we exported $15.2 billion worth of goods to Taiwan and $7 billion to mainland China.

Mr. ACKERMAN. That $15 or $16 billion, is that consumer goods or is that everything?

Mr. LAUX. That is everything. Total exports.

Mr. ACKERMAN. And how much of that was consumer goods?

Mr. LAUX. I cannot answer that without looking it up but I will get you the answer.

[The information follows:]

Estimated figure would be $2 billion to $3 billion.

Mr. ROHRABACHER. Mr. Chairman, I might add, important to California's industry is the entertainment industry and something that means a lot to us, and I do not take that lightly, and I want my friends in Taiwan to understand that is a significant issue for us and we have to have intellectual property rights respected. But we also have to understand in Taiwan what they would like in terms of importing, they would like to import more weapons from us, for example. They would like to import more airplanes and even bring down that trade balance even more in that area. So we have some opportunities as well as some problems.

Mr. ACKERMAN. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

I apologize to the panel for not being here for most of your testimony. We were marking up budget issues in the Intelligence Committee. I very much appreciate your testimony. I have had a chance to review some of it in advance.

I would like to focus on the food processing industry or the value added. I have to say to my colleague I thought his comments about Taiwan are very appropriate.

Taiwan's food management law constitutes today a very real and substantial threat to U.S. exports of feed grain, soy beans, and wheat. But beyond that in value added, there is a de facto import ban which virtually excludes Taiwan from rice, chicken, pork, peanuts, sugar, and wheat flour from the United States. And, U.S. beef exports face exorbitant tariffs. Most high-value and consumer-oriented agricultural products in the United States like fruits, citrus, soups, breakfast cereals, raisins, dried fruit, are subject to tarries between 40 and 60 percent, generally 40 to 50 percent.

Taiwan, I think, has made very little progress in implementing its prior commitment to significantly reduce its tariffs on U.S. processed food exports under the trade action plan of 1989. Under this bilateral agenda, Taiwan has made only 2-year commitments out of the 5-year action plan to reduce Taiwan on processed foods from an average tariff of 25.99 percent to 19.82 percent.

Nevertheless, here is the important point: Taiwan is now stating that it will not respect prior bilateral commitments to reduce these tariffs and, in fact, collectively stated such reductions would be made upon Taiwan's accession to GATT, a multilateral issue. In other words, they are saying we disavow those bilateral agreements we made, we are not going to do any more of that, we are not going to be held to them until after we are in GATT.

Now, that formal position that no further reductions in tariff would be made prior to GATT accession is a violation, I would suggest, of the spirit of the bilateral trade action plan which the Government of Taiwan entered with the United States.

I think, therefore, the question needs to be turned around. Why is it in the interests of the United States to support accession of Taiwan to the GATT?

I cannot find a satisfactory answer for that. A bilateral agreement with the United States ought to be honored by Taiwan, especially a country that has a $10 billion surplus with us. The reason, of course, that Taiwan buys more from us than the People's Republic of China is that their citizens are wealthy and they can afford to buy value-added products from the United States.

Mr. GEJDENSON. Would the gentleman yield?

Mr. BEREUTER. I would be pleased to yield.

Mr. GEJDENSON. It seems to me that in your question regarding our position toward Taiwan and GATT, accepting Taiwan in the GATT would require Taiwan having to drop these tariffs.

While maybe their negotiating tactics are frustrating at the moment, if they accept the GATT conditions, then these tariffs will be significantly reduced.

Mr. BEREUTER. I would have to say to the gentleman though that they have an agreement with the United States, that 1989 action plan. And they agreed bilaterally to that.

Mr. GEJDENSON. Yes, you cannot argue with that either.

Mr. BEREUTER. And now they are repudiating it and saying wait until we get in GATT.

Mr. GEJDENSON. I am certainly not arguing that we ought to remain inactive until Taiwan is admitted to GATT. Taiwan's GATT entry can clearly be leverage for us to move Taiwan in the right direction immediately. I do think, however, that if a total agreement can be reached, we will all be better off covering all the broad areas including intellectual property and the levies issue.

Mr. BEREUTER. Our tariffs, for example, on breakfast food are about 2½ percent. Theirs are 40 percent. They promised to bring them down to 3.5 percent or at least under 4 percent and we see no progress. Now they have abandoned that intent. They have repudiated, it appears, the bilateral agreement. There is no doubt that those products that go into Campbell soup are very important to our producers here in the United States and what it is, unfortunately, is that they are not just protecting their own markets it is an across the board kind of limitation on value-added products being brought into their country at reasonable tariffs. They have no soup producer. They do not have an adequate number of producers of breakfast food. Therefore, our products ought to be allowed in there.

If they must have high tariffs, they ought to do it on a product-by-product, industry sector-by-industry sector basis to protect their industry. We can understand that. We do not like it, but we can understand it. But this across the board, huge tarries, 60, 50, 40 and 30 percent in the case of soup just because that is a standard policy is not a reasonable approach. Furthermore, it is a repudiation of what they agreed with the Government of the United States.

I would like to ask the gentlemen if they have any reaction to my remarks and maybe they will be a little less angry about it but I am trying to move your products into these markets.

Mr. BREWSTER. On behalf of Campbell Soup, we are in total agreement. We share some of the comments of the great progress that Taiwan has made over the last few years but we do believe that these markets—it is now time to open these up and this is the ideal time to get this settled, this whole situation, and our opportunity to talk about these, this is a great time to get it out there. But we have to get these tariffs and duties down if Taiwan is going to join the developed countries and going into GATT. So we support them 100 percent.

Mr. BEREUTER. Thank you.

Mr. Attaway.

Mr. ATTAWAY. I certainly would subscribe to your comments. I think that Taiwan has to be sent a message, and I hope that is what we are doing there today, that they must abide by their bilateral obligations to the United States which include some commitments on intellectual property that I referred to earlier as a condition to joining GATT. And I am hopeful that we have made some progress toward that end today.

Mr. BEREUTER. That is exactly the stance that I think our Government should take. I appreciate you enunciating it very clearly.

Mr. LAUX. I would just like to say that I absolutely agree with you, that Taiwan's agricultural tariffs are too high and should come down. But I was not clear on the agreement that you are referring to. I think if you are talking about the trade action plan, that is not an agreement between the United States and Taiwan, it is a unilateral statement of intent by Taiwan.

It was the President's own idea to bring down the trade deficit by 10 percent a year which they have done. And I am not aware of the specific provisions on agriculture but if they are in there, certainly the fact that they are getting into GATT should not stand in the way of any further reduction.

Mr. BEREUTER. But, Mr. Laux, we have taken that as a commitment on the part of the Government of Taiwan and our policies and our programs are conditioned on the expectation that they are going to live up to the elements of their own plan. And it has affected our policies toward Taiwan as a result of that statement. I understand the distinction you are making. It is not a treaty but we have poised our actions, we have framed our actions on the basis of that commitment and now they have abandoned it, simply saying we are going to wait until we get into GATT.

Mr. ACKERMAN. Thank you. At least we did not hear that soup is an emotional issue and people are moving the hillsides brewing soup. [Laughter.]

Mr. ACKERMAN. Let me thank all of our witnesses today for your indeed expert testimony. You have enhanced our understanding of this issue.

We will adjourn as we do have a vote on the committee funding resolution that will allow us to come back here and do this again on a different day. Thank you very much.

The hearing stands adjourned.

[Whereupon, at 3:45 p.m., the subcommittees were adjourned.]

# APPENDIX

## CONGRESSIONAL TESTIMONY

of Mr. David Laux
President, USA - ROC Economic Council
March 30, 1993
Before the House Foreign Affairs Committee
Subcommittees on Asia and the Pacific, and
Economic Policy, Trade and Environment

### INTRODUCTION

Chairman Ackerman, Chairman Gejdenson, and distinguished members of the two subcommittees of the House Foreign Affairs Committee, thank you for the privilege and honor of appearing before you.

You have asked me to testify on business opportunities in Taiwan for U.S. firms, on whether U.S. government trade agencies are making sufficient efforts to promote U.S. exports to Taiwan, on how U.S. efforts could be improved, on what specific market barriers still exist in Taiwan, on how Taiwan's entry into the GATT will affect U.S. exports to Taiwan, and on whether the U.S. should strongly advocate Taiwan's entry into the GATT.

I will address these questions in turn, and they are covered in detail in my written submission. I would like to focus my oral summary here on what I consider are the key issues -- how important the business opportunities in Taiwan are to the United States and how our efforts to expand U.S. exports to Taiwan can be improved.

First, a word on my credentials and the organization which I represent here today, the USA-ROC Economic Council. Most of my working life over the past 40 years has been spent in some way trying to improve U.S. relations with the Chinese people -- on both sides of the Taiwan Straits. In the last 11 years I have had the privilege of occupying several important positions in this respect: 4 1/2 years (1982-86) as Director of Asian Affairs on the National Security Council dealing primarily with China and Taiwan; 3 1/2 years (1987-1990) as Chairman and Managing Director of the American Institute in Taiwan -- the organization which is, in effect, our substitute for an Embassy in conducting the U.S. unofficial, "commercial, cultural and other relations" with Taiwan; and the last 2 1/2 years as President of the USA-ROC Economic Council. The Council is a private non-profit, 501 (c)(6) association with a

membership of about 350 U.S. firms and organizations doing business with Taiwan. Our purpose is to promote business and investment between the United States and the Republic of China on Taiwan, but our primary focus is on assisting U.S. exporters of goods and services to Taiwan. Our funds come from membership dues and our activities. We do not receive money from the Republic of China on Taiwan, and we speak for the interests of U.S. business, not for the government on Taiwan. We were founded in 1976 by David M. Kennedy, former Secretary of the Treasury under President Nixon, who was Chairman of the Council for its first 14 years. Our present Chairman is Caspar M. Weinberger, well known to everyone in this room.

TAIWAN'S IMPORTANCE

The first point I wish to make is to emphasize Taiwan's economic and commercial importance -- to the world and to the United States. Let me cite some impressive statistics. This small island, with only 20 million people in an area not quite three times the size of the State of Connecticut or 1 1/2 times the size of the State of Maryland, has become, on the basis of statistics for 1992, the world's 14th largest trading economy, the world's 12th largest exporter, and the United States' sixth largest trading partner after Canada, Japan, Mexico, Germany and Great Britain. Taiwan's economy and trade are growing rapidly. It is already a bigger trading partner for the United States than France or South Korea and could pass Great Britain in the next year or two to become our fifth largest trading partner.

For several years Taiwan held the world's largest foreign exchange reserves -- over $80 billion (U.S.), but it has been surpassed recently by Germany. Taiwan is a banker's dream, with an impeccable credit record and one of the world's smallest debt levels -- less than $1 billion.

Taiwan buys twice as much from the United States as does the People's Republic of China which has 55 times as many people (and 270 times the area). Taiwan is our fifth largest market for agricultural products. Taiwan is the largest or second largest foreign investor in the Philippines, Thailand, Malaysia and Vietnam and its investment in Indonesia is growing rapidly.

Taiwan's trade and investment with the People's Republic of China is growing at a remarkable rate. Taiwan is the largest "foreign" investor in Fujian Province in China and the second largest in Guangdong after Hong Kong. The burgeoning economic relations between Taiwan, Hong Kong and China --for which the business community's current buzz word is "Greater China" -- is one of the most exciting business developments in the world today. If the three were taken together, the resulting ethnic Chinese entity would replace Mexico as our third largest trading partner.

Taiwan's economy grew more in 1992 than any of the other "little dragons" of Asia. And Taiwan's per capita GNP passed the $10,000 mark in 1992, a 25 percent increase in two years, and one of the highest growth rates in the world. This new prosperity is leading to new business opportunities for U.S. firms in exporting high quality consumer goods to Taiwan, in the development of recreational facilities on Taiwan, and in the travel of Chinese tourists from Taiwan to Guam, Hawaii, and the mainland United States.

In 1992, Taiwan accounted for 30 percent of the total increase in U.S. exports to the East Asia-Pacific market. Taiwan is a proven market with customers who pay in cash in both public and private sectors. From Taiwan's point of view, the United States is their most important trading partner. Total U.S.-Taiwan trade was almost $40 billion (39.8) in 1992, comprised of $15.2 billion in U.S. exports and 24.6 billion in U.S. imports.

Finally, according to the U.S. Department of Commerce, Taiwan is today the world's largest market for major infrastructure projects. The 6-Year National Development Plan of the Republic of China on Taiwan calls for expenditures of about $330 billion (U.S.). The plan is designed to overhaul Taiwan's infrastructure and launch it into the 21st century as a new regional transportation, business and financial center in Asia. Two years ago we heard a lot about the $100 billion needed to rebuild Kuwait (which turned out to be more like $15 billion) and today we hear a lot about the need to help build or rebuild Russia -- with no figures available, but Taiwan's plan is a bird in hand. It is three years underway and we estimate that some $60 to $100 billion of the $330 billion will be available to foreign firms through international tenders. Using the Department of Commerce's rule-of-thumb that $1 billion in U.S. exports creates approximately 19,000 jobs, these potential contracts represent a significant opportunity to stimulate the U.S. economy.

In sum, I see the business prospects for the United States in Taiwan as the most important commercial opportunity in the world today. And our Council is doing everything it can to help its members participate in this explosive growth and expand their exports to Taiwan.

**PROGRESS AND PROBLEMS**

This array of statistics should not be construed to mean that all is well in U.S. trade relations with Taiwan or that I am naive about our problems there. Despite great progress in lowering tariffs and reducing or eliminating barriers to market access, significant problems and obstacles remain. The most notable areas of progress have been in the lowering of non-agricultural tariffs, the ending of drift-net fishing, liberalized licensing

requirements, enforced trade controls and some improved protection for intellectual property rights.

The most serious problems remaining include continued inadequate enforcement with respect to infringements of intellectual property rights (despite the progress that has been made), very high tariffs on agricultural products, the need to open up their financial services sector, the need to simplify and facilitate government procurement processes, and the need to eliminate administrative barriers in some areas, including telecommunications.

NEW CHALLENGES

The United States faces new challenges in taking advantage of the business opportunities in Taiwan. We can no longer take Taiwan's pro-U.S. inclinations for granted. The dominance of the U.S. in Taiwan's relations with other countries is diminishing. U.S. companies face greater and stiffer competition there from Japanese and European companies than ever before and it is going to get even tougher. European nations have, in effect, "discovered" Taiwan in the last few years because of the great business opportunities there and European companies are in Taiwan in greater numbers than ever before. European governments have enlarged their trade and representative offices there and are sending high level government officials to Taiwan in numbers that exceed those of the U.S. in their efforts to promote the prospects for their own companies.

While the U.S. is still the most important bilateral relationship for the Republic of China on Taiwan, it is no longer the only important one. The U.S. must recognize the political and economic changes that have occurred over the last twenty years and accept the economic and commercial reality that we must compete hard with other countries for business there on the basis of quality, price and dependability.

Moreover, the increasing democratization of Taiwan has created a new business environment. Great strides have been made in creating a democratic society with freely elected opposition members and an increasingly influential free press. With the elections of last December, the Legislative Yuan has become a real force in terms of due political process, and the opposition party is sufficient in numbers to force compromises on some key issues. This means that the government budget and major government contracts are going to be discussed and argued over in a public forum while vested interests push for their own objectives. An increasingly assertive legislative branch will complicate the decision making authority of the executive branch and make it more difficult for the authorities to reach agreement on unpopular market opening measures. In sum, we are dealing with a system much more like our own, and U.S. companies pursuing major projects -- as

well as U.S. government representatives pursuing market opening objectives -- are going to have to take the legislature into account as well as the executive branch. U.S. companies may also have to deal with offset requirements or other terms imposed by the legislature which seem difficult or unrealistic. In short, the game is going to get more complicated.

## U.S. GOVERNMENT SUPPORT AND RECOMMENDATIONS

The U.S.Department of Commerce, the U.S. Trade Representative, the Trade Development Agency, and other trade agencies have, by and large, done an excellent job in promoting U.S. exports to Taiwan and in negotiating better access into Taiwan's markets. The area which needs the most attention, and where a few small moves by our government would, I believe, make the greatest contribution to the prospects for increased U.S. exports to Taiwan, has to do with our overall policy approach to Taiwan.

Let me describe why I believe the U.S. government should review the outmoded guidelines which have governed how we handle our unofficial relations with Taiwan, and should revise those guidelines which are obsolete and inhibit our ability to manage a full trade relationship and maximize our exports. Some common sense needs to be applied, for example, to allow economic cabinet officers and other high level officials from relevant trade agencies to visit Taiwan when it is appropriate to press the case for expanded U.S. exports, a further lowering of the trade deficit, reduction of tariffs and removal of market barriers, and to support the efforts of U.S. companies seeking contracts there.

For fourteen years, since the U.S. established diplomatic relations with the People's Republic of China in January 1979, and disestablished them with the Republic of China on Taiwan, the executive branch of the U.S. government has been operating under special guidelines established to govern the conduct of these unique and unofficial relations. These guidelines have allowed only one Assistant Secretary per year to visit Taiwan -- normally one from the Department of Commerce. Most Deputy Assistant Secretaries and Assistant Secretaries and all higher level officials from all agencies have been denied permission to visit Taiwan when they applied.

This is a restriction we imposed on ourselves -- not something negotiated or agreed to in any of our three joint communiques or other agreements with China. We did this to ourselves, I think, because we felt it would demonstrate to China that our relations with Taiwan truly are unofficial if no policy level officials of the U.S. government are allowed to visit there. But over time this policy has impaired our ability to argue persuasively at senior levels of the government of the Republic of China on Taiwan on important economic issues. And has increasingly adversely affected our ability to support the efforts of U.S. business firms pursuing

major contracts there in the face of increasingly stiff foreign competition from other countries, whose governments are sending cabinet officers to Taiwan to support their companies.

Both our Council and the American Chamber of Commerce in Taipei wrote letters to President Bush in late 1991 on this matter urging high level visits, and our Council's Chairman, Caspar Weinberger, and a delegation of Council Board of Directors and "Chairman's Circle" members met with Vice President Quayle in the Spring of 1992 to press the case for high level economic visitors to Taiwan. Fortunately, a visit by U.S. Trade Representative Carla Hills to Taiwan was finally approved and took place in December 1992. She was the first U.S. Cabinet officer to visit Taiwan in at least 14 years. Yet in that same year, other foreign governments sent over 40 Cabinet and sub-cabinet visitors flocking to Taiwan supporting their business firms' efforts to obtain some of Taiwan's major infrastructure project contracts.

The way we treat Taiwan under these guidelines, or rules of engagement, do get into a political area that goes beyond the scope of this hearing. And I am not meaning to imply that a visit by a U.S. cabinet officer to Taiwan is going to guarantee a contract. The contracts will have to be won by U.S. companies themselves on the basis of the competitive quality and price of their goods and services. But how we treat Taiwan under these guidelines does affect the psychological environment in which U.S. business firms operate, and I am recommending that we do at least as much as other governments do in this area to support U.S. companies and promote our exports.

We should allow senior economic officials to visit Taiwan whenever appropriate to promote U.S. exports, support U.S. business efforts and deal with important economic issues. We should stop worrying over a possible adverse reaction from Beijing and explain such visits to them for what they truly are -- a needed means of dealing with a major trading partner -- which have nothing to do with our political view or our diplomatic recognition of the People's Republic of China in Beijing as the sole legal Government of China.

I recommend more oversight by the Congress, especially the Senate Foreign Relations Committee and the House Foreign Affairs Committee, of the special unofficial relationship we have with Taiwan to ensure that appropriate measures to promote U.S. exports and to support the efforts of U.S. business firms can be carried out. The Taiwan Relations Act of April 1979, which governs how these unique relations are to be conducted, envisioned such oversight, but as the years have gone by Congress has stepped back from the degree of oversight which the statute intended. Taiwan is one of our most important trading partners, and should not be treated as a secondary entity or consular post in that regard. We should treat Taiwan with the attention which our sixth largest

trading partner deserves. This includes such things as: seeing that the building which houses the U.S. representational offices there -- even though they are unofficial -- be a fitting one (the current buildings are close to a disgrace); ensuring an adequate budget for the provision of economic, commercial and other services; and ensuring that we have representatives there who are the full equivalent of those assigned for duty in the capitals of other major trading partners.

I would also recommend that members of Congress and U.S. State governments continue to show the interest in Taiwan already demonstrated, and work to strengthen ties with their counterparts in Taiwan's new legislature. It may be worth considering institutionalizing this in some way. These congressional and state relationships have been a significant element in promoting the good business relations which we now enjoy.

There is today a unique opportunity to take a fresh look at our unofficial relations with Taiwan and review the dated guidelines governing our conduct of them. We have a new President, a new administration, and a new Congress. President Clinton has visited Taiwan four times and, from the point of view of personal experience, has a better understanding of Taiwan than any President in our history. He is intelligent, full of energy and fresh ideas, and he has, in several major speeches, laid out his vision of economic growth in the United States based on expansion of our exports and measures to open markets abroad to enable the U.S. to better compete internationally and create more jobs at home. The President also, in a speech at American University on February 26, and in a recent press conference, recognized the importance of U.S. economic relations with Taiwan and the effort they have made to reduce their trade deficit with us. With the same political party controlling the White House and the Congress, the time is ripe to take a fresh look at things.

The new political environment in Taiwan and the increased presence and competitiveness of Taiwan's new trading partners suggest that rules of the 1980's will not be successful in the Taiwan of the 1990's. I am confident that we in the private sector can meet the challenges in Taiwan with our superior technology, quality products, responsive service, and competitive prices. What we need from our government is an economic policy and relationship with Taiwan which likewise meets these new challenges.

I look forward to working with your two committees as you continue your review of U.S. - Taiwan economic relations, and I assure you that the USA - ROC Economic Council supports this important effort. We hope that the Executive Branch will conduct a similar review and that your joint results will be an economic policy with Taiwan that meets the needs of our government and U.S. industry.

Now let me address the specific questions your two subcommittees listed in your letter asking me to testify.

**Question 1:**

**What are the leading U.S. exports to Taiwan ?**

**Answer 1:**

[All figures are in U.S. dollars] Leading U.S. exports to Taiwan in 1992 were: Chemicals ($2.1 billion); Electronic parts and components ($1.99 billion); Transportation equipment ($1.98 billion); Machinery ($1.36 billion); Basic Metals ($533 million); Corn ($682 million); and Soybeans ($517 million).

**QUESTION 2:**

**Which sectors of the Taiwan market hold increasing opportunities for U.S. firms ?**

**ANSWER 2:**

Basically, the answer is high technology products, although there are also growing opportunities in the service sectors. Moreover, as mentioned earlier, there are enormous opportunities in Taiwan's Six Year National Development Plan. The greatest prospects for business under the Six Year Plan are in four sectors where U.S. companies are all strong competitors: Transportation (where over $100 billion U.S. will be spent), Power Generation (nearly $40 billion U.S.), Environmental Protection (where some $10 - 15 billion U.S. will be spent by the R.O.C. government, and another $25 billion by Taiwan's private sector), and Telecommunications (about $15 billion U.S.).

A little more detail on some immediate prospects in specific categories follows:

**Power plants:**

No major project in Taiwan is more important to the United States business community than Taiwan's fourth Nuclear Power Plant scheduled to be built under the 6 Year Plan. Although the plant still faces opposition from some elected local officials and environmental groups, it is moving forward and is expected to be built. Not only is this plant important in and of itself (estimates of foreign equipment and related purchase range anywhere from $1.5 billion to $4.2 billion U.S.), but it undoubtedly will be the first of a number of additional nuclear power plants Taiwan will have to build over the next 10 to 15 years if Taiwan is to meet its growing demand for electricity. Three U.S. companies -- ABB/Combustion Engineering, General Electric, and Westinghouse are in fierce competition with a French company for this project. The

plant will be built under specifications recently established in the "Utilities Requirements Document" published by the U.S. Electric Power Research Institute, and will be the safest nuclear power plant in the world. The stakes for U.S. companies and the U.S. nuclear industry are high and the full support of the U.S. government, especially the Departments of Commerce and Energy, and the Export-Import Bank, should be provided to the U.S. companies pursuing this project.

Other types of power plants also to be built under the 6 Year Plan -- coal, natural gas, combined cycle, etc. make the power sector one of the most significant areas of opportunity for U.S. companies.

**Pollution Control:**

$10.3 billion (U.S.) has been budgeted for 68 public environmental protection projects in Taiwan's Six Year Plan. Of the budgeted amount, $4.7 billion will be set aside for waste water control, $3.6 billion for solid waste treatment, $533 million for air pollution control, $256 million for monitoring systems, and $53 million for toxic waste management. Equipment sales alone are estimated to have been $940 million (U.S.) in 1992, and are projected to expand at an annual rate of 20 - 25 percent through the year 1995.

**Computers and Peripherals:**

Sales of U.S. computers and peripherals are expected to grow 20 percent annually through 1995. To modernize administrative work, 29 major public computerization projects are now in the planning or development stage. U.S. suppliers should capture at least 50 percent of the local computer market sector. U.S. sales of sophisticated peripherals are brisk as well.

**Electronic Lab Instruments:**

Sales of electronic laboratory instruments are projected to expand by 15 percent annually from $285 million in 1992 through 1995. Taiwan's demand for imported, advanced electronic instruments for laboratories will be especially strong.

**Semiconductors:**

Continued rapid expansion of Taiwan's electronic's industry saw the market for semiconductors increase from $3.3 billion (U.S.) in 1990 to over $5.0 billion (U.S.) in 1992. The semiconductor market, spurred by the recently announced plans for information products, semiconductors, communication products, and consumer electronics industries, will further expand at a rate of 15 - 20 percent per year through 1995.

**Semiconductor manufacturing equipment:**

Taiwan is poised to become the world's fourth largest semiconductor supplier in the world after Japan, the United States, and Korea. The semiconductor industry is expected to grow 19 percent annually through 1996. Equipment and materials used in original equipment manufacturing (OEM)production, from wafer fabrication to packaging, are needed on Taiwan. In 1992, Taiwan purchased this kind of equipment totalling $600 million.

**Telecommunications equipment:**

The Directorate General of Telecommunications will spend $5.4 billion over the next six years on an islandwide digital network system. In addition, advanced services, such as Intelligent Network and Fiber Optical Loops, will be introduced in the 1990s. Purchases of private systems should expand by 15 - 20 percent per year through 1995. This is an enormous potential market, and U.S. firms pursuing it need U.S. Government support in convincing Taiwan to remove some administrative barriers.

**Defense:**

One important sector which needs to be mentioned is defense. The U.S. has long been Taiwan's major foreign supplier of defense equipment. These sales are strictly controlled under the U.S. munitions licensing system and under the interagency guidelines developed as a result of the August, 1982 Joint U.S.-China Communique known as the "Taiwan Arms Sales Communique". These guidelines place a steadily diminishing ceiling on the amount of defense goods the U.S. sells to Taiwan. At the same time, the Taiwan Relations Act of April, 1979, -- a document which, as law, would be judged superior to a communique in the U.S. court system -- specifies that the U.S.:

> *"... will make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability.*
>
> *The President and the Congress shall determine the nature and quantity of such defense articles and services based solely upon their judgement of the needs of Taiwan, in accordance with procedures established by law. Such determination of Taiwan's defense needs shall include review by United States military authorities in connection with recommendations to the President and the Congress."*

Obviously, a formidable element of judgement is involved here. Personally, I think the U.S. has threaded its way rather well over the past decade between the parameters of these two documents. However, the declining ceiling on dollar limits has begun to hurt.

On behalf of those companies in the defense industry of the U.S. who are members of our Council, we wish to note here that there are an increasing number of instances in the past few years where U.S. firms have lost lucrative contracts with Taiwan due to the declining dollar ceiling, and stiffer competition from European firms which do not operate under such prohibitions.

**Medical Equipment:**

The medical equipment market on Taiwan is growing constantly. Sales are expected to rise an average of 5 - 10 percent per year to approximately $420 million in 1995. U.S. firms are particularly competitive in the high-end of the market.

**Industrial process controls (IPCs):**

Imports may grow 15 percent per annum to reach $1.5 billion by 1995. American suppliers are highly competitive in electronic/electric IPCs and computer based control systems.

**Chemical production machinery:**

The Chinese Petrochemical Corporation's fifth naphtha cracker plant, which is scheduled to be completed by June 1994, is expected to call for $250 million in equipment purchases from foreign suppliers. Significant purchases of foreign equipment are also expected for the sixth cracker, being built by the Formosa Plastics Group (FPG). This project, with a total outlay of over $3.3 billion, consists of 26 petrochemical plants and one oil refinery. Several of the FPG's chemical plants are also now being expanded. As the supply of basic raw materials from the fifth and sixth crackers increases, investment by mid- and down-stream firms in the petrochemical industry should be significant. Equipment sales in 1992 were $785 million and are projected to increase at a rate of 15 - 20 percent annually through 1995.

**Computer-aided design and computer aided manufacturing (CAD/CAM):**

In order to upgrade product development capability and accelerate production automation as a result of rising labor costs, local demand for CAD/CAM systems is mounting. Projected sales will increase at a rate of 10 - 15 percent annually from $155 million in 1992 through 1995. The United States has controlled about 70 percent of the import market.

**Refrigeration equipment:**

Reflecting economic growth and increased living standards, the market for refrigeration equipment is expected to expand by 10 - 15 percent from $590 million in 1992 through 1995. American suppliers have led the import market for household refrigerators since 1986.

**Mass transit equipment and services:**

Taiwan's $15 billion rapid transit project, to be completed in 1999, will include several billion dollars worth of foreign procurement. The $10 billion Kaohsiung mass rapid transit system, the $10.3 billion west coast corridor high speed railway project, and the new deep-water harbor project will offer major opportunities for U.S. engineering firms and equipment manufacturers.

**Cosmetics:**

As disposable income rises on Taiwan, imports of cosmetics are growing rapidly. Total imports in 1992 reached $142 million and are expected to rise 15 - 20 percent per year through 1995.

**High-value food products:**

Fruits and vegetables, high quality beef, and processed foods have high growth potential. The Taiwan authorities have set a zero-growth target for the island's agricultural sector. This policy, coupled with ever-increasing production costs and rising consumer income, will likely boost imports of U.S. high value food products during this decade.

**Computer software:**

Due in part to the growing awareness of and sensitivity to intellectual property rights, Taiwan's purchases of foreign-developed software have expanded rapidly in recent years. Estimated import sales in 1992 were valued at $95 million.

**Building supplies:**

Continuous economic growth, along with heavy infrastructural investment, is bringing to the Taiwan market prosperous sales of construction related products. The market for building supplies, which was valued at $7.8 billion, will continually expand by 10 - 15 percent per annum through 1995.

**Engineering plastics:**

With its large scale industrial development and expanding foreign trade, Taiwan's market for engineering plastics is increasing substantially. Projected sales of engineering plastics will grow at a rate of 13 percent from $300 million in 1992 by 1995.

**Consumer goods:**

As mentioned earlier, the rapidly rising per capita income in Taiwan has led to a new level of individual prosperity and a surge

of interest in high quality consumer goods such as fashionable cloths, gourmet foods, accessories, automobiles, etc.

**Recreational Activities:**

With the new affluence there is also a growing demand for recreational facilities. Taiwan has some wonderful beaches, mountains, forests, and islands -- but very few have recreational or resort facilities and there is little know-how in Taiwan on how to develop such facilities. There is a significant potential market here for U.S. firms with such expertise.

**Travel and tourism:**

Similarly, the demand for travel and tourism is skyrocketing. Air travel from Taiwan to Hong Kong (and through there to China), Japan, and the U.S. is soaring. The American Institute in Taiwan processed more applications for non-immigrant visas than all but two U.S. embassies in the world in the last two years (approximately 225,000 visas per year). These visas are for business and for tourism and most of them 5 year/multiple re-entry issues. This does not necessarily mean that Taiwan is the source of the third largest number of foreign visitors to the U.S., because visas for the U.S. are waived in some countries. But it does mean tourist travel to the U.S. from Taiwan is rising rapidly.

**Miscellaneous:**

Taiwan's Six Year Plan divides Taiwan into 18 districts to promote regional development. The Plan also places a high priority on improving the quality of life, and on narrowing the gap in living standards between urban and rural areas. This means business opportunities in the development of new housing, shopping centers, hospitals, educational facilities, etc.

**Other important prospective markets are:**

Automobiles & light trucks/vans
Lasers and electro-optics
Aircraft & parts
Avionics & ground support equipment
Biotechnology
Plastic materials and resins
Automotive parts & service equipment
Pumps, valves & compressors
Materials handling equipment
Composite materials
Railroad equipment
Food processing and packaging equipment
Trucks, trailers, and buses
Security and safety equipment
Information services
Franchising

QUESTION 3:

**Are the U.S. Commerce Department, the Ex-Im Bank, the Trade Development Agency, the Overseas Private Investment Corporation, and other U.S. government trade agencies making sufficient efforts to promote U.S exports to Taiwan? How can these efforts be improved ?**

Answer 3:

American Institute in Taiwan (AIT):

As mentioned earlier, because U.S. relations with the Republic of China on Taiwan are unofficial, they are conducted through the American Institute in Taiwan (AIT), a private corporation under contract to the Department of State. Taiwan's counterpart organization is the Coordination Council for North American Affairs (CCNAA). Negotiations are conducted between these two organizations. U.S. government officials technically are consultants to AIT in this process.

AIT, through its headquarters in Arlington, Virginia, and its offices in Taipei and Kaohsiung has done and is doing an exceptional job in supporting U.S. business interests in Taiwan. Despite increasingly intense competition, U.S firms have been able to secure about 30 percent of all international tenders over the past three years.

Our Council would like to single out for special praise, the current Chairman of AIT, Ambassador Willis Bellocchi, his Director of Trade and Commercial Programs, Raymond Sanders, the Deputy Director of AIT's Office in Taipei, James Larocco, the head of AIT/Taipei's Commercial Section, Tim [illegible], and Robert Strotman in AIT's Office in Kaohsiung. These are outstanding officers, who are providing U.S. companies doing business in Taiwan with the kind of support we taxpayers can be proud of.

The Department of Commerce (USDOC):

The Department of Commerce headquarters in Washington, D.C. has had very good Taiwan desk officers who provide good advice to U.S. companies, and Commerce's functional offices provide useful services in their respective industrial sectors. There also has been progress in liberalizing the guidelines for trade promotion. For the first eight years after our relations with Taiwan became unofficial, the Department of Commerce did not recruit participants for trade shows or trade missions to Taiwan. Now they do. A Memorandum of Understanding was signed in 1990 between AIT and the Department of Commerce which enabled AIT to expand its commercial staff significantly. As a result, the AIT office in Taipei is now able to provide the U.S. business community with the same kind of services offered by U.S. embassies in countries like the Republic

of Korea. In 1992, two Department of Commerce deputy assistant secretaries were allowed to travel to Taiwan in support of U.S. firms. Within the framework of the restrictions on official travel to Taiwan, I believe that the Department of Commerce has done a very respectable job of promoting opportunities in Taiwan and supporting U.S. firms there. But more visits to Taiwan by high level Department of Commerce officials could be very useful in promoting U.S. business interests there.

**The U.S. Trade and Development Agency (TDA):**

In general, TDA's program in Taiwan falls into two categories: direct financial support to specific U.S. firms or consortia pursuing major projects; and broad based market initiatives aimed at introducing Taiwan to U.S. sectoral capabilities.

TDA has played an important role over the last several years in the support of U.S commercial interests in Taiwan. They have funded feasibility studies which have led to the selection of U.S. firms for the transit projects in Taipei and Kaohsiung; they have funded training programs for Taiwan professionals in the fields of transportation, environmental protection, and computerized information systems. TDA has also funded activities managed by AIT and by Northwestern University's International Business Development Center (IBD) in the environmental protection area, and in business matchmaking activities. TDA also funded through our Council last year a study of the business opportunities in Taiwan's Six-Year National Development Plan and a series of seminars in six U.S. cities to bring the results of that study to American companies. TDA is also funding a joint project by our Council and IBD to bring selected Taiwan officials to the U.S. to visit various projects and U.S. firms involved in telecommunications and power generation.

In my view, TDA gets a huge "bang for its buck." A total of $2.2 million which TDA expended in support of the U.S. mass transit consortia, and its direct support of Digital Equipment Corporation in its pursuit of the computerized information service contract, helped result in securing contracts in Taiwan totaling $690 million.

**U.S. Trade Representative (USTR):**

USTR has done a superb job with respect to Taiwan. USTR's performance and results are detailed in my answer to question number 5, starting on page 21.

**The Export-Import Bank (Eximbank):**

Eximbank has had a very close relationship with Taiwan over the years. Eximbank helped in a significant way to support a multitude of Taiwan's major infrastructure projects during the mid-1960's to early 1980's. Since the mid-1960's, Eximbank has

assisted in the financing of over $5.5 billion of export sales to Taiwan. Of this total, $2.5 billion of export sales were supported by the Bank to Taiwan's electric power system. Eximbank support during this earlier period was provided for Taiwan's government-owned steel mill, its airport, petroleum and petrochemical industries, its commercial airlines, and significant portions of its shipyard and textile manufacturing industries, as well as its electric power system.

Eximbank's exposure in Taiwan reached a high of $2.2 billion in the early 1980's -- It is only [illegible] million now. Taiwan's "economic miracle," and its national policies to borrow locally and look to project cash flows, has meant that it has not needed the assistance of Eximbank and the official export credit agencies of Europe and Japan since the early 1980's. Nevertheless, Eximbank's programs have remained open and have been available to Taiwan should they need Eximbank's assistance.

However, currently, Eximbank has under consideration a very large export opportunity in support of Taiwan' upcoming fourth nuclear power plant, should U.S. companies be successful in their competitive bidding efforts to win this contract. Eximbank support is expected to be very important in Taiwan's decision on this project.

**U.S. Department of Treasury:**

The U.S. Department of Treasury has played a quiet but effective role in the unofficial negotiations with Taiwan authorities on financial matters. The appreciation of the New Taiwan Dollar from 40 to 1 (U.S. [illegible] to 1 over the past seven years has been a particularly welcome development.

In negotiations with the Taiwan authorities, the U.S. has sought to improve market access, end discriminatory practices, and encourage the broader liberalization of Taiwan's financial sector. Taiwan made a number of significant concessions during the late 1980's, but the pace of reform has since slowed.

The U.S. should continue to urge Taiwan to eliminate its remaining capital controls and liberalize restrictions on foreign exchange transactions to avert future designation as a currency manipulator and facilitate its accession to the GATT.

Liberalization of the exchange rate system should help encourage the New Taiwan Dollar appreciation that will be necessary for further reduction in Taiwan's trade surplus with the U.S.; further reform would also facilitate GATT accession.

The U.S. should press Taiwan to improve access and national treatment for foreign financial firms, particularly in view of the openness of the U.S. market.

Visits by high level Treasury officials to Taiwan might help substantially in negotiations to achieve further progress in the very important financial sector.

**The Overseas Private Investment Corporation (OPIC):**

OPIC is required to restrict its activities in high income developing countries, and Taiwan is classified in this category. As such, OPIC services are restricted to the following categories: energy resources; projects sponsored by a U.S. small business; projects to reinsure private political risk insurance underwriters; projects by U.S. contractors for goods and services; or projects with significant U.S. trade benefits.

OPIC programs are driven primarily by private sector demand. In the 1970's there was considerable OPIC activity in Taiwan. Today, however, because of the stable investment/economic environment in Taiwan and perceived low political risk, the number of companies seeking OPIC assistance is limited. OPIC currently only has eight political risk insurance contracts in effect representing total coverage of about $37 million. The most recent political risk insurance projects were approved in 1989. In financing, OPIC has no outstanding loans and no pending requests.

We understand that OPIC is prepared to consider new requests by U.S. business for OPIC services to increase American trade and investment with Taiwan, but has only limited resources available.

**Other Efforts:**

As described earlier, one of the most important steps that could be taken to promote U.S. exports to Taiwan is to revise the "rules of engagement" to make it easier for high level U.S. economic officials to meet with their Taiwan counterparts.

**QUESTION 4:**

**What are the specific market barriers preventing U.S. firms from entering the Taiwan market ?**

**ANSWER 4:**

My understanding is that the 1993 National Trade Estimate on foreign trade barriers, scheduled to be released by the U.S. Trade Representative office tomorrow, March 31, will identify several problem areas in Taiwan: import policies, including high tariffs on agricultural products, import licensing on approximately 34 percent of the items on Taiwan's tariff schedule, and a commodity tax; standards, testing, labeling and certification, which impede or restrict U.S. products; government procurement; lack of intellectual property protection; service barriers, in insurance, maritime and motion pictures; investment barriers; and other

barriers, including monopoly practices and telecommunications. The National Trade Estimate deals with these barriers at some length.

I will address here the gist of problems created for American companies by barriers as we understand them from Council members and from discussions with the American Institute in Taiwan.

## CONSTRUCTION LICENSES

It is not easy for a foreign construction firm to secure a functional license that would allow it to do business on the same basis as a comparable local firm. Despite a policy welcoming the participation of U.S. and other foreign firms in Taiwan's Six Year Plan, existing laws and bureaucratic realities make it a long and costly exercise for foreign firms to be in a position to take part in the construction phase of big projects.

U.S. firms have managed to overcome this obstacle through tie-ups with local firms and by applying only for work as construction managers or consulting engineers, but these regulations still exclude many U.S. firms which would be able to provide construction technology for many large-scale projects, especially for six year plan projects.

## TELECOMMUNICATIONS

Telecommunications, which is still a State-run monopoly, is divided into two types of services -- Type I and Type II. Type I services are "basic" services and Type II services are enhanced services such as data, video, and value added networks (VANs). Type I services are solely provided by Taiwan's Directorate General of Telecommunications (DGT). At present, foreign firms are not permitted to operate Type II services -- even as minority partners with local firms.

Taiwan authorities have drafted a new telecommunication law which will allow foreign firms which meet certain conditions (e.g., reciprocity in their home country for Taiwan firms, a willingness to transfer technology) to provide Type II services. However, under the new law, the DGT will still have a monopoly on Type I services and will also provide some Type II telecommunications services. While the draft telecommunications law is a step in the right direction, it still contains very troublesome provisions relating to local content and technology transfer, and it fails to allow the provision of many critical telecommunications services in which the U.S. holds worldwide competitive leadership. Of particular concern to U.S. telecommunications firms are problems in Taiwan's government procurement procedures, such as inadequate transparency and openness in procurement decisions, and outright prohibitions on foreign companies' ability to bid certain products. In addition, the DGT has currently established onerous localization and technology transfer requirements for a major government bid.

While the U.S. Government, through the American Institute in Taiwan, has raised these issues, no progress has been made.

**PETROLEUM PRODUCTS**

The Chinese Petroleum Corporation (CPC) has an overall monopoly in importing and distribution of petroleum products in Taiwan. There are over 1,000 gasoline stations operated by the CPC and private firms throughout the island of Taiwan. However, the private gasoline stations are required to sell gasoline and diesel oil supplied by the CPC.

No foreign firms are allowed to distribute and/or operate retail filling stations on Taiwan. The Taiwan authorities announced a negative list for foreign investment in May, 1988, in which gasoline station service is totally reserved for local investors with foreign investment absolutely prohibited.

**FINANCIAL SERVICES ISSUES**

Given the economy's strong growth and importance to the international trading system, Taiwan is a potentially lucrative market for U.S. financial firms. However, while Taiwan's banks and securities firms enjoy full access to the U.S. market, Taiwan restricts the ability of U.S. and other foreign banks and securities firms to establish operations in Taiwan; once established, U.S. firms are not granted national treatment.

Impediments for U.S. banks include limits on branches, ceilings on deposits and loans, limits on foreign exchange transactions, and restrictions on securities activities.

In the securities market, U.S. institutional investors face limits on investment and cannot freely repatriate capital and earnings, while foreign investment by foreign individuals is prohibited altogether.

More broadly, adjustment in Taiwan's large trade imbalance with the U.S. ($9.4 billion in 1992) has been impeded by the slow rate of appreciation of Taiwan's currency in 1991 and 1992.

Continued central bank controls, including on exchange transactions and on capital inflows and outflows, have tended to reduce pressures for appreciation of the New Taiwan dollar.

**INSURANCE:**

In the insurance sector it still takes an inordinate amount of time to approve new product applications -- one to two years is not uncommon. This applies to the whole insurance industry equally. Taiwan should be encouraged to accelerate the process.

Taiwan has under consideration new capital requirements for foreign branch insurance operations. They should be encouraged to establish a level consistent with the short to medium term business opportunities rather than a level which might be bound to discourage potential entrants as well as established operations.

Taiwan authorities now require that all contractors must secure letters of credit from commercial banks as a financial guarantee against non-performance. In the past, options were provided that included the use of surety bonds provided by insurance companies to satisfy financial guarantee requirements.

Because of this new regulation, U.S. insurers -- providers of surety bonds in markets throughout the world -- are losing significant business opportunities in Taiwan's infrastructure development program. Contractors prefer surety bonds because letters of credit are charged against their credit lines. Drawing down their credit places limitations on the availability of capital for a number of purposes, including bidding for additional business. Surety bonds provided by insurance companies are accepted all over the world. We would like to encourage the Taiwanese authorities to reconsider requiring only letters of credit and reopen the market for surety bonds.

## INTELLECTUAL PROPERTY RIGHTS PROTECTION

There has been a concerted effort by Taiwan authorities to increase public awareness about intellectual property rights (IPR) and improve IPR enforcement efforts. Prosecution of IPR cases has improved. However, lack of adequate manpower has limited the effectiveness of enforcement efforts. Large scale piracy of computer software and compact discs remains a particularly intractable problem. Consequently, in April 1992, Taiwan was designated a priority country under the "Special 301" provisions of the 1988 Trade Act. On June 5, 1992, as a result of a number of commitments to improve IPR enforcement and IPR laws, Taiwan was taken off the list of priority foreign countries. Those commitments, which are embodied in an "Understanding Between the American Institute in Taiwan and the Coordination Council for North American Affairs", may significantly improve protection for U.S. patents, trademarks, and copyrights in Taiwan.

## AGRICULTURE

Taiwan has strong protectionist policies for agricultural products. Many agricultural products are subject to import quotas. Some other agricultural imports are subject to licenses issued by the Council of Agriculture (a de facto ban). Quarantine requirements also block the import of certain items. These include chicken, certain cuts of pork, peanuts, fresh potatoes, live swine, animal offal, sugar, and selected dairy products. Rice and rice

products are exceptional items requiring approval from Taiwan's Provincial Food Bureau (a de facto ban).

**OFFSET PROGRAMS**

Taiwan has instituted formal offset programs -- called industrial cooperation programs (ICPs) -- for several aircraft projects and for the fourth nuclear power plant project.

At present, although there are no overall regulations requiring local firm participation in major contracts, individual tenders may specify a desired level of local participation (e.g., requirements for local sourcing).

**MISCELLANEOUS BARRIERS**

Authorities on Taiwan have established export performance requirements for investment in special export processing zones (areas which provide tax benefits to industrial enterprises). Local automobile manufacturers must meet stringent local content requirements (50 percent), as must local motorcycle makers (90 percent). Foreign investment in certain specified industries is limited to a maximum percentage (always well under a controlling interest).

QUESTION 5:

**What have been the results of U.S. government efforts to date to negotiate an end to these import barriers ?**

ANSWER 5:

Over the last five years there have been over 40 consultations with Taiwan on issues including Intellectual Property Rights (IPR) protection, machine tools, agricultural exports, driftnet fishing, textiles, maritime issues, tariffs, financial services, telecommunications, strategic trade controls, customs valuations, and annual trade reviews.

These negotiations have been spearheaded by USTR, although they include representatives from many other agencies and take place under the auspices of the American Institute in Taiwan and its counterpart, the Coordination Council for North American Affairs. Negotiators from AIT along with AIT consultants from the Office of the USTR, the Departments of State, Treasury, Commerce, Agriculture, and others, have been extremely successful in opening the Taiwan market for U.S. firms and in encouraging Taiwan to liberalize its trading regime.

It is not possible to measure precisely the exact results of these negotiations, and much credit for the progress made obviously goes to the Republic of China in Taiwan for its execution of

President Lee Teng-hui's Trade Action Plan to reduce their trade surplus with us, and other steps they have taken to enact new laws and regulations which have improved IPR protection, liberalized tariffs and licensing requirements, enforced trade controls and ended driftnet fishing. Nevertheless, the U.S. trade deficit with Taiwan has been reduced from over $18 billion in 1987 to $9.4 billion in 1992. And in 1992 the U.S. share of Taiwan's total imports was 22 percent, and U.S. firms were awarded more than 30 percent of Taiwan's public sector procurement. These are impressive results.

Basically, the hard work our Trade agencies have done has been fruitful, but much work still remains to be done.

As previously stated, significant progress still remains to be seen in the Telecommunications sector, as well as financial services and the other sectors listed in the previous section (answers to Question 4). In general, the progress in protecting intellectual property has been brisk, but roadblocks still remain concerning the "retroactiveness" of protection for U.S. intellectual property. It should be noted, however, that total sector liberalization has been achieved in the liquor, spirits, and cigarette markets on Taiwan. The Taiwan Tobacco and Wine Monopoly Bureau (TTWB) has decreased its status from a government monopoly to a competitor on even footing with private importers. Agricultural tariffs still remain a negotiating point, and there is concern that Taiwan will propose the exclusion of rice from its GATT obligations.

To achieve further progress in reducing or removing the remaining trade barriers, more communication channels would be extremely helpful. Negotiation table communication is a necessary aspect of any mutually beneficial trade relationship. However, this "table-talk" should not encompass the entire dialogue. High level representation helps governments and private sector negotiations. There are psychological barriers (separate and apart from tangible economic barriers) that effect market penetration of foreign firms in Taiwan. These barriers can be greatly reduced through increased communications at higher levels.

QUESTION 6:

**Does Taiwan's application to join GATT present the U.S. with an opportunity to reduce Taiwan's import barriers ?**

ANSWER 6:

Yes. The negotiations which will be part of Taiwan's GATT accession will result in lower tariffs in Taiwan and in the liberalization of Taiwan's trade regime. Taiwan has taken many of these steps already and the leadership in Taiwan is committed to complete the process so that their GATT application can be favorably considered. Taiwan will enter the GATT as a "developed" economy, which means accession to a tougher regime than for developing countries. While I am not privy to the specifics of the bilateral negotiations which will take place between representatives of the U.S. and Taiwan or with the GATT Working Party, I am sure that many troublesome issues which have been identified by U.S. industry and by USTR will be resolved during this process. Among other things, our Council recommends that Taiwan sign both the Subsidy Code and the Aircraft Code as a part of their conditions for accession.

Moreover, the negotiations for Taiwan's entry into the GATT will multilateralize the task for which the United States has so far carried by far the greatest burden to date. Some of the market opening measures Taiwan will be required to take will be difficult and unpopular domestically. The U.S., in its bilateral negotiations for improved access over the past few years has taken the brunt of criticism in Taiwan for market opening measures which have benefited all of Taiwan's trading partners.

Taiwan's membership in GATT will benefit Taiwan, all of its trading partners, and the GATT organization. Taiwan will gain a voice in the major international trade organization and will receive all the benefits of membership. Taiwan will have a new relationship through GATT with its 108 members. Taiwan will participate in making GATT's rules. GATT provides a forum for discussions with trading partners and a mechanism for the resolution of disputes. As a GATT member, Taiwan will also assume all the obligations of GATT, which will benefit all of its trading partners. As the world's twelfth largest trading economy, and the largest one outside the GATT, Taiwan's presence in GATT will increase the integrity and span of the organization. It is a win-win-win outcome.

My understanding is that the U.S. will seek tariff concessions and bindings. Taiwan will be required to accept all the GATT obligations of developed countries in making their trade regime open and transparent and to accept the GATT codes. A successful outcome of the Uruguay Round would greatly increase the benefits to the U.S. of Taiwan's GATT membership, since we would expect Taiwan

to accept the new GATT disciplines in agriculture, intellectual property rights, services, and trade related investments. These are areas of some of our most significant trade issues with Taiwan, and Taiwan's entry into GATT should substantially improve business opportunities for U.S. companies in many areas.

QUESTION 7:

**Should the U.S. support Taiwan's entry into GATT, with appropriate concessions, as a means to increase U.S. exports to Taiwan ?**

ANSWER 7:

Yes, as indicated earlier, our Council believes the U.S. should strongly support Taiwan's entry into the GATT, with appropriate concessions. We believe it will result in increased U.S. exports to Taiwan, and this is why our Chairman, Caspar Weinberger, wrote President Bush in November, 1992, urging stronger U.S. support of Taiwan's application.

One question which seems certain to arise for members of the GATT is whether or not Taiwan should be admitted once its negotiations are completed or whether their entry should await that of the People's Republic of China. Taiwan could meet all of the conditions necessary and be ready to enter the GATT some time this year, whereas it seems almost certain that China will need two years or more before it can meet all of the conditions necessary, even though they will be less rigorous than Taiwan because China will enter as a "developing country".

China obviously would prefer that Taiwan's entry to delayed to be immediately after, or continuously with, their own. In my view, Taiwan should be allowed to enter when it is ready. Taiwan is applying for membership under title of the "Customs Territory of Taiwan, Penghu, Quemoy, and Matsu" and not as the government of China. There is precedent for an entity not regarded as a full country in the case of Hong Kong which is already in the GATT. Taiwan's acceptance should not depend upon China's accession nor should it depend upon any other political consideration. The GATT is an economic institution, not a political institution or an affiliate of the United Nations. GATT is a club of the world's traders and Taiwan ranks amongst the largest of these. Taiwan should be admitted to the GATT on the merits of its own application as soon as negotiations are concluded.

Beyond this, we need to think creatively about ways in which Taiwan can enter or be affiliated with the International Monetary Fund and the World Bank. Taiwan has the potential to be an important contributor to the international trading and financial regimes and it is in the interest of all nations to come up with an acceptable way for Taiwan, with its unique status, to be more of a part of the international community.

Testimony of

**Fritz Attaway**
**Senior Vice President**
**Motion Picture Association of America**
**representing**
**The International Intellectual Property Alliance**

Hearing on
U.S.-Taiwan Economic Relations
Before
The Subcommittee on Economic Policy, Trade and Environment
of the Foreign Affairs Committee
U.S. House of Representatives

March 30, 1993

Mr. Chairman and Members of the Subcommittee:

Good afternoon. My name is Fritz Attaway, and I am Senior Vice President of Government Affairs for the Motion Picture Association of America. I am here today to testify on behalf of the International Intellectual Property Alliance (IIPA).

IIPA is a coalition of eight trade associations that collectively represent the U.S. copyright-based industries --- that is, the motion picture, computer software, sound recording, music publishing and book publishing industries. The 1500 companies represented in the IIPA are the leading edge of the world's high technology, entertainment and publishing industries. According to a recent report commissioned by IIPA, the U.S. copyright industries accounted for over 5% of the U.S. Gross Domestic Product and contributed over $34 billion in foreign revenues in 1990.

We appreciate this opportunity to present our views on the extensive problems the copyright industries have experienced and continue to face in Taiwan.

Seven Years of Concerted Action

The copyright industries represented in the IIPA rely on strong copyright protection and enforcement around the world. Unfortunately, we have not been able to rely on this standard in Taiwan. IIPA first targeted Taiwan as a center of copyright piracy in 1985 and has worked closely with the U.S. government to bring

the level of protection and enforcement for copyrighted works in Taiwan up to international standards. IIPA estimates that in 1992 alone, the U.S. copyright industries lost an estimated $669 million due to the piracy of U.S. movies, sound recordings, musical compositions, books and computer software. Over the years, these trade losses have escalated primarily due to:

- inadequate enforcement of copyrights by the R.O.C. government;
- the regular imposition of low penalties which are totally inadequate to deter infringement;
- the failure of the R.O.C. government to stop massive exports of pirated compact discs and software; and
- the proliferation of illegal cable systems known as "Channel 4s" which, by retransmitting U.S. films and television programs, severely damages the local video and theatrical market.

In April 1992, Taiwan was identified by the U.S. Trade Representative as a Priority Foreign Country under the Special 301 provisions of the U.S. Trade Act of 1974, as amended. Taiwan finally appeared to recognize the importance of this designation and entered into negotiations with the U.S. government to address these problems. In June 1992, after years of inaction, Taiwan passed a Copyright Law. Also last June, the U.S. and Taiwan entered into a Memorandum of Understanding (MOU) which contained specific commitments regarding intellectual property protection and enforcement. The MOU was the culmination of over seven years of continuous and often frustrating bilateral consultations designed to ensure that Taiwan control its staggering levels of piracy of U.S. copyrighted works.

For the record, attached is the excerpt on Taiwan from the IIPA's February 12, 1993 Special 301 submission to USTR.

Current Situation

Mr. Chairman, I would like to address two vital issues which require immediate attention by the R.O.C. government before the April 30 Special 301 decision deadline -- first, Taiwan's compliance with the MOU, and second, the status of the 1989 Bilateral Copyright Agreement.

1. Inadequate Compliance with the MOU

If Taiwan does not fully comply with the obligations it made in the MOU by April 30, 1993, IIPA has urged USTR to immediately commence trade retaliation proceedings as permitted under Special 301 of the 1974 Trade Act. We cannot condone the continued theft of our intellectual creativity due to the lack of political will and aggressive anti-piracy enforcement by the R.O.C. The U.S. Congress has

recognized the vital role the copyright industries play in U.S. trade and provided the trade remedy of retaliation in the U.S. trade laws.

Permit me to briefly elaborate on where Taiwan totally fails to meet its MOU obligations:

- The Cable TV Law and interim cable regulations, required under the MOU, have not yet been passed. The unauthorized broadcasting of U.S. films and programming continues. While the R.O.C. has recently begun raiding illegal cable systems, such sporadic raids have not met the "systematic and immediate" standard required under the MOU.

- The R.O.C. government has yet to convict or punish any of the three CD plants which continue to produce and export piratical sound recordings. As required under the MOU, the Government Information Office (the agency charged with supervising the export of sound recordings) should carry out its obligation to refer all export licenses for all foreign recordings to the International Federation of the Phonographic Industry (IFPI).

- Piracy of international sound recordings is on the rise. Songwriters and music publishers, who own and control the reproduction rights in the underlying music compositions contained on sound recordings, suffer tremendous losses from pirates' failure to pay royalties on the pirated materials.

- Taiwan has begun to set up an export control system (as required under the MOU) which is designed to stop the staggering amount of pirated software. While there have been a limited number of cases in which the smuggling of pirate software has been stopped, significant problems remain. Because of problems in coordination between the various agencies responsible for implementing this system, pirated software is still being exported. These unauthorized exports extend economic harm to markets all around the world. Taiwan will be making further modifications to its export control system which must be completed by July 1, 1993.

- Commercial photocopying of books -- in particular, medical books -- continues unabated.

In commenting on the U.S.-R.O.C. Special 301 consultations which ended two weeks ago, the chief U.S. negotiator, Robert Cassidy, said: "Despite considerable efforts by the Taiwan authorities, additional steps are necessary to ensure adequate and effective IPR protection in Taiwan" [emphasis added].

2. The Bilateral

In 1989, a Bilateral Copyright Agreement was negotiated but never signed by Taiwan. Only in January of this year did the Legislative Yuan pass this Bilateral -- BUT -- at the same time, the LY made reservations on eight critical articles. Such reservations upset the entire balance of issues already negotiated and, in effect, gut the entire agreement. During this month's U.S.-R.O.C. Special 301 consultations, the U.S. government clearly indicated that it is not going to reopen the Bilateral. IIPA wholeheartedly supports this position.

One of the reservations addresses the key issue of parallel imports. Both the Bilateral and the recently passed Copyright Law contained protection against parallel imports -- meaning that legitimate products (not pirated ones) from other countries may not be imported into Taiwan without authorization from the copyright owners. Taiwan has reneged on providing this protection by making a reservation under the Bilateral and by issuing a reinterpretation of its Copyright Law. We understand that this issue was discussed intensely during the U.S.-R.O.C. Special 301 consultations.

IIPA Opposes Taiwan's Membership in GATT

Mr. Chairman, this recital of piracy and inadequate enforcement by the R.O.C. over the years is a travesty. Despite both the U.S. copyright industries' and the U.S. government's best efforts, progress in improving copyright protection and enforcement in Taiwan has been interminably slow.

IIPA strongly recommends that the U.S. oppose Taiwan's membership in the GATT until Taiwan demonstrates with specific actions that it will comply fully with all the obligations it has made to the U.S. in the June 1992 Memorandum of Understanding.

Conclusion

In conclusion, Mr. Chairman, IIPA and its member associations have worked closely with the U.S. government over many years to achieve adequate protection and enforcement of U.S. copyrighted works in Taiwan. U.S. trade policy cannot condone the theft of U.S. works abroad. The time has come for Taiwan to meet its obligations to the U.S. -- and the deadline to avoid trade retaliation is April 30.

Thank you.

Excerpt from IIPA's Special 301 Filing to USTR (Feb. 12, 1993)

**TAIWAN**

In April 1992 Taiwan was identified by USTR as a Priority Foreign Country under the Special 301 provisions of the U.S. Trade Act of 1974, as amended. This action by USTR was the culmination of a long campaign by the U.S. copyright industries, working closely with the U.S. government, to bring the level of protection and enforcement for copyrighted works up to international standards. In its 1992 Special 301 submission to USTR, the IIPA detailed the significant deterioration in effective protection in Taiwan following its remaining on the Watch List the previous year. At that point, losses had escalated to $370 million in 1991, due principally to inadequate enforcement, the consistent imposition of low penalties on infringers, the failure of the government to deal with massive exports of pirated CDs and software, the proliferation of illegal "Channel 4s" which, through unauthorized transmission of U.S. and other programs, were severely damaging the local video and theatrical market, and persistent failure to enforce the provisions of the 1989 MTV Agreement to seize videotapes and laserdisks unauthorized for public performance.

The taking of this strong action against Taiwan, and the realization by its government that the U.S. government was deadly serious in seeking remedies to these problems, finally appeared to bring meaningful results. After letting the proposed draft of a new Copyright Law languish without action, the Executive Yuan pushed the bill through the Legislative Yuan in May 1992, and it went into effect in June 1992, shortly before the U.S. government's extended 301 deadline. Moreover, after almost two weeks of grueling discussions, the CCNAA and AIT entered into a Memorandum of Understanding (MOU) on June 5, 1992 containing specific and wide-ranging IP commitments.

As of the date of this writing, the IIPA regrets to report that Taiwan is not yet in compliance with its solemn obligations in the MOU, and as a result, piracy levels have not begun to come down. Indeed, trade losses in 1992 were almost double the $370 million reported in 1991 -- up to a staggering $669 million, due principally to a recalculation of losses due to software piracy (which doubled to $585 million for 1992) and to a revised estimate for losses due to video and cable piracy (up from $15 million to $45 million).[1] The current situation in Taiwan has been ascertained and reported

[1] The IIPA has recently received these new trade loss estimates and will provide in a supplemental submission further documentation on how they were calculated.

to IIPA by its members, by the U.S. government teams that have met with CCNAA in August and in December 1992, and through reports by the members of an IIPA-led delegation that visited Taiwan in mid-January at the invitation of the Intellectual Property Protection Committee (IPPC) of the Chinese National Federation of Industries (CNFI).

Taiwan's compliance with the MOU is now being "monitored" pursuant to Section 306 of the Trade Act. If Taiwan does not bring the various components of its copyright enforcement system into full compliance with its MOU obligations by April 30, 1993, IIPA urges USTR to immediately commence retaliation proceedings.[2]

Computer Programs: Under the MOU, Taiwan was obligated to set up a system to control the massive export of pirated software from that country. It has set up what is called the Export Inspection of Computer Software (EICS) System to meet this obligation. IIPA's evaluation of this system as currently implemented is that it is beginning to be effective in deterring unauthorized exports through the smuggling of pirate operating and applications system software.[3] Nevertheless, the system falls short of what will be necessary to effectively prevent such exports. The IIPA concludes:

- Further interministry cooperation and coordination is needed to make the system work as planned.

- The system for obtaining export licenses from BOFT needs to be reformed so that OEMs cannot just present a distribution agreement as evidence that they have the right to export a product. OEMs should not be allowed to register with BOFT unless they have a specific authorization from the copyright owner to do so. BOFT had earlier rejected these reforms but may now be ready to consider them.

- The reforms recommended by the Institute for Information Industry (III), which operates the key inspection element of the system under delegated authority from the BCIQ, should be immediately

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[2] It is IIPA's understanding that actual trade sanctions can be commenced within a minimum of six weeks following this date.

[3] IIPA was unable to ascertain how effective the system was in deterring the export of video game software. We understand Nintendo will be filing 301 comments on this question.

implemented, including extending the time to detain suspected infringing exports beyond the three days apparently allowed in BCIQ's enabling law. The current three-day period is impossibly short; whether suspect goods are infringing cannot be verified in this time frame.

- III's inspection system is deficient because only the few cartons in a shipment specifically selected to be searched are tagged and taped shut. Failure to tape uninspected cartons in a shipment easily allows the exporter to switch the contents and insert infringing software. All cartons should be properly tagged and secured.

- Customs must agree to permit III to co-locate its inspection facilities in the Customs offices at the ports and airports.

- There is no evidence that exporters filing false documents have been, or will be, aggressively prosecuted for this offense or that infringers will be prosecuted when found.

While III reported inspecting 19,625 export shipments and finding no counterfeits, IIPA has no way to confirm that this represents the true situation, given the existing deficiencies in the system.

Sound Recordings and Musical Compositions: Eight months after signing the MOU, the Taiwan government has yet to convict or punish any of the three CD plants which have apparently continued to produce pirate discs and have refused RIAA/IFPI assistance in verifying the legality of production. Since the MOU, the GIO has reported that 12 seizures of suspected CDs have occurred. Three of these cases are reportedly under investigation, and nine involve the taking of "administrative measures," which was not explained further. Meanwhile, the two pending seizures, against Yih Chaung in August 1991, are still in court. But, in a most welcome development, we recently learned that the other case, against Princo, has resulted in an indictment. Even though there are now two cases in the judicial process, we must await their results before evaluating further the sincerity of the government in dealing with the CD export problem.

Since the signing of the MOU, RIAA has learned of two large shipments of CDs which were exported from Taiwan for which export permits were apparently never procured from GIO and BOFT. These shipments were marked as compact discs yet customs, in direct violation of the MOU, did not check the

contents. This indicates that the system is not working at the level that it must to resolve this problem.

In addition to the losses suffered by U.S. music publishers resulting from the unauthorized reproduction of the musical composition on these tapes and DCs (or the infringement of the "mechanical right"), music publishers also suffer losses from the making of unauthorized foreign language lyrics or "local cover" versions or popular American songs which are then recorded in various Chinese dialects. Lost revenues to music publishers in such a situation include both the mechanical royalty paid for the reproduction of the work, as well as the additional fee typically paid for the right to publish the foreign language lyrics. This problem is common throughout Asia.

Trade losses due to piracy, both domestically (reportedly tape piracy is on the increase) and due to exports was $24 million in 1992.

Motion Pictures: The severe losses caused by undeterred infringements by illegal Channel 4s is the major problem facing the motion picture industry in Taiwan. The problem of laserdisk parallel imports follows close behind. Under the MOU, the GIO is obligated to "immediately and systematically" raid illegal Channel 4s, "seize all equipment," seek "imposition of the maximum penalties" for the running of an illegal system, and prosecute infringers under the Copyright Law, without the need to file a complaint, and impose maximum penalties. GIO reports 81 raids against such systems in all of 1992, but it is unclear whether anyone has actually paid fines under the Radio and TV Law for these violations. While seizures of equipment have occurred, MPEAA suspects that these do not involve cable head-end equipment of the type that would force the system to shut down permanently. . Indeed, these raids and seizures appear to have had no major deterrent effect, as MPEAA had reported in the past, and there is real concern that this GIO enforcement effort is window-dressing and is not designed to make a real dent in this serious problem.

More encouraging, however, is a recent report that there have now been four convictions involving infringements by cable systems brought under the "professional infringer" provisions of the new Copyright Law. CCNAA reports that defendants were sentenced to imprisonment for two years, one year and six months (two cases), one year and two months, and one year. We await further details on these cases, including whether the actual owners of the system were the defendants, whether the systems closed down as a result, what the infringing acts were, and whether they involved U.S. films.

Nevertheless, these are the kinds of penalties that will ultimately deter piracy. We welcome this development.

The MOU also obligates the Executive Yuan to use its "best efforts" to pass a cable law by January 31, 1993. This date has now passed and there appears to be little chance that such a law will pass in the near future. Meanwhile, illegal cable systems continue to add new subscribers and blatantly and forcefully lobby against any effort by their government to work out reasonable regulation of their continuing illegal activities.

The parallel import problem has become acute. Laserdisks are flooding the market and are being imported before the title is officially released to the home video market in Taiwan and usually before the local theatrical run has been completed. MOI's inexcusable reversal of its opinion that Article 87 of the new Law does allow the copyright owner to control parallel imports, and its refusal to support the clear intent behind Article 14 of the Bilateral Treaty, helped poison the atmosphere in the Legislative Yuan which finally, as discussed further below, issued a "reservation" on this provision. While GIO has promised to control parallel imports in the motion picture area through the Radio and TV Law, we do not believe it has yet done so, and many local lawyers doubt that such a tactic will be upheld. This unfortunate development contributes to IIPA's conclusion that Taiwan is not in compliance with its MOU obligations.

While there are now reportedly less than 100 operating MTVs, they still continue to publicly perform U.S. videos and laserdisks without authorization, and pirate tapes are still being used, reportedly late at night. While there has finally been enforcement of the "unauthorized use" obligations of the MTV agreement through seizure of those tapes, the level of enforcement is still not high enough to deter these acts of piracy and to provide the needed "incentive" for the MTVs once and for all to enter into public performance licenses with U.S. film companies and their local distributors.

All in all, losses continue and are now estimated to be $45 million in 1992.

Books: While book piracy continues to exist in Taiwan, instances of reprinting have declined substantially in the last few years. A major problem continues to be commercial photocopying around the universities. AAP's ongoing enforcement program has kept piracy under some control and is one of the bright spots in an otherwise dismal situation. Losses from book piracy are estimated at $15 million for 1992, the same as in 1991.

AIT-CCNAA Bilateral Copyright Agreement

On January 18, 1993, the Legislative Yuan considered the Bilateral Agreement but refused to approve it without taking a reported eight "reservations" to it. These reservation gut major and critical elements of the Agreement, including (a) provision that the copyright owner has the right to control parallel imports, (b) the so-called "Crocodile Dundee" clause designed to rectify eligibility for works that would otherwise be protected if Taiwan were a member of an international convention, (c) the provision requiring Taiwan to protect pre-existing U.S. works back to 1965, and (d) the provision of the agreement requiring Taiwan to protect sound recordings under copyright and at the same level as other copyrighted works. This irresponsible act by Taiwan's legislature cannot be countenanced; the Agreement was negotiated in good faith and establishes reasonable and responsible obligations on both parties to protect their respective copyrights at internationally acceptable levels. We understand that the U.S. government has protested this action.

Enforcement Generally

IIPA has been completely frustrated in its attempts to decipher the enforcement statistics provided by BOFT, GIO and MOJ pursuant to their MOU obligations. We understand that individual statistics on each criminal case involving copyright infringement are in fact being kept. There is no reason why adequate statistics cannot be provided to the U.S. government by these agencies. The MOU requires it and we consider Taiwan to be in breach of this obligation. Because of this problem, we are unable to ascertain whether penalties being assessed are now increasing, as Taiwan also promised in the MOU.

The Taiwan government has more than two months to bring itself into compliance with the MOU. The IIPA urges the new Administration not to balk at strictly enforcing this binding agreement. Unless Taiwan takes its international obligations more seriously, it cannot expect to join the GATT, and IIPA will strongly oppose its membership unless Taiwan solves its long-festering IPR problems. IIPA urges that Taiwan be maintained as a Priority Foreign Country and that retaliation proceedings commence on April 30, 1993 unless its obligations under the MOU are fully implemented.

**IIPA 1993 "SPECIAL 301" RECOMMENDATIONS AND ESTIMATED TRADE LOSSES DUE TO PIRACY (1992)**
(in millions)

| | Motion Pictures | Records & Music | Computer Programs | Books | Total |
|---|---|---|---|---|---|
| Priority Foreign Country | | | | | |
| Taiwan | 45 | 24 | 585 | 15 | 669 |
| Thailand | 30 | 24 | 49 | 20 | 123 |
| Italy | 224 | 38 | 238 | na | 500 |
| Korea | 20 | 66 | 315 | 15 | 416 |
| Poland | 45 | 30 | 100 | 15 | 190 |
| Philippines | 15 | 5 | 25 | 70 | 115 |
| Turkey | 35 | 12 | na | 15 | 62 |
| Priority Watch List | | | | | |
| People's Republic of China | 45 | 45 | 225 | 100 | 415 |
| India | 40 | 41 | 63 | 25 | 169 |
| Brazil | 50 | 10 | 40 | 25 | 125 |
| Saudi Arabia | 50 | 33 | 28 | 6 | 117 |
| Venezuela | 12 | 10 | 40 | 20 | 82 |
| Egypt | 37 | 4 | 14 | 15 | 70 |
| Greece | 37 | 21 | na | 4 | 62 |
| Cyprus | 32 | 4 | na | 15 | 51 |
| El Salvador | 1.4 | 5 | na | 1 | 7.4 |
| Australia | na | na | na | na | na |
| Watch List | | | | | |
| Russia | 40 | 300 | 100 | 50 | 490 |
| Spain | 31 | 7 | 336 | na | 374 |
| Paraguay | 0.1 | 200* | na | 2 | 202.1 |
| U.A.E. | 6 | 108 | na | 2 | 116 |
| Indonesia | 40 | 16 | na | 40 | 96 |
| Bulgaria | 10 | 12 | 20 | 5 | 47 |
| Malaysia | 35 | 6 | na | na | 41 |
| Pakistan | 20 | na | na | 20 | 40 |
| Hungary | 25 | 11 | na | 4 | 40 |
| Israel | 11 | 2 | na | na | 13 |
| Guatemala | 1.1 | na | na | 1 | 2.1 |
| TOTAL | 937.6 | 1034 | 2178 | 485 | 4634.6 |

| Special Comment | GSP Petition Targets |
|---|---|
| Bahrain | Cyprus |
| France | Egypt |
| Germany | El Salvador |
| Honduras | Philippines |
| Mexico | Poland |
| Singapore | Thailand |
| | Venezuela |

na: Estimate of trade losses not available.
*: See discussion in text of Paraguay's 1993 anti-piracy efforts.
Underlined countries: Were designated as Priority Foreign Countries in prior years and remain subject to Section 306 monitoring, with the possibility of immediate retaliation. See discussion in text at pages 5-6.

# STATEMENT OF CAMPBELL SOUP COMPANY

## BEFORE THE SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT AND THE SUBCOMMITTEE ON ASIAN AND PACIFIC AFFAIRS OF THE UNITED STATES HOUSE OF REPRESENTATIVES FOREIGN AFFAIRS COMMITTEE

## HEARINGS CONCERNING THE APPLICATION OF CHINA-TAIPEI TO ACCEDE TO THE GATT

This statement amplifies the summary testimony of Campbell Soup Company (headquartered in Camden, New Jersey) as part of the hearings conducted by the Subcommittee on Economic Policy, Trade and Environment and the Subcommittee on Asian and Pacific Affairs of the United States House of Representative Foreign Affairs Committee on the announced intention of the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsui ("China Taipei") to accede to the General Agreement on Tariffs and Trade ("GATT").

In light of Taiwan's significant stature, it is certainly appropriate that it be a GATT participant. Its impressive growth and increasing economic importance argue for rapid movement towards this end.

Campbell is a major U. S. food processing company known internationally as one of the leading manufacturers and marketers of branded consumer food products. Net sales in its fiscal year ending July 1992 were $6.2 billion, $4.6 billion of which were in the United States. Campbell employs more than 40,000 people, most of them in the United States.

Campbell manufactures most of its soup exports to Taiwan and other Asian destinations in its Sacramento, California plant, which employs nearly 2,000 people. Ingredients come from a number of other Campbell plants, suppliers and farmers. These include tomatoes, tomato paste, carrots, cabbage, celery, mushrooms and other vegetables from California. They also include chicken and chicken stock from Campbell operations in Minnesota, Georgia, Arkansas and Nebraska; these operations are supplied by farmers in these states as well as Mississippi, South Dakota, Missouri and Iowa. Spices for these soups from Wisconsin, Maryland, California and New Jersey. Potatoes come from Oregon. Corn comes from Washington. Corn starch comes from Illinois. Eggs come from Utah and Chinese labels come from

Nebraska. While not exhaustive, this list shows the breadth of contributors to the soup being exported.

Campbell sells soups and broths to retail and food service customers in Taiwan. Both the Campbell and Swanson brands are sold via Tait Inc. Ltd., Campbell food service products are also sold to fast-food chains. Evidencing the company's commitment to the Taiwan market, Campbell has hired a team in Taiwan, engaged a distributor, and carried out marketing and advertising campaigns.

Campbell's highest market access priority is to reduce and GATT bind to 7 percent Taiwan's 30 percent ad valorem tariff on the company's canned soup exports.

Since 1988, Campbell has requested U. S. trade officials to seek a substantial reduction in the high Taiwanese tariffs on U. S. processed exports, particularly canned soup and broth exports. These products have been included in numerous U. S. government priority market access lists submitted to Taiwan's trade officials. Further, both the 1991 and 1992 National Trade Estimate Report to Congress identified Taiwan's high tariffs on soups and other processed foods.

Despite U. S. negotiators' efforts, Taiwan has been slow to introduce substantial tariff reductions on Campbell products. For example, Taiwan's 1989 Trade Action Plan resulted in only modest tariff reductions from 35 to 30 percent ad valorem on meat soups and broths and 40 to 30 percent ad valorem on other soups and broths. While this reflects some Taiwanese willingness to open its market to U. S. soup and broth exports, much deeper tariff cuts need to be taken for Taiwan to take its appropriate place as a major GATT participant.

This raises a more fundamental trade policy concern of processed food exporters such as Campbell. In May 1989 Taiwan implemented its Trade Action Plan following pressure from the U. S. Congress to reduce its massive trade surplus with the United States. The plan was supposed to reduce tariff rates on products of particular interest to the United States. On January 1, 1992, Taiwan finally implemented its 1990 tariff reduction package.

Even if fully implemented, the Trade Action Plan is structured to protect local processed, high value-added industries. The Plan promised to reduce the average level of tariffs on agricultural products from 25.99 percent in 1988 to 19.82 percent by 1992. But the Plan's average level of tariffs on processed foods effective January 1, 1992 remained much higher, at 36.7 percent compared to the 6.5% in the United States. There is no question that canned soups, as well as other highly competitive U. S. processed food exports, are subject to prohibitive tariffs in Taiwan.

While Campbell has a strong commitment to the Taiwanese market, annual canned soup and broth exports total only about a million and a half dollars. Despite our intensive sales efforts, growth is substantially slowed by the 30 percent import charge.

Market analysis indicates that Taiwanese eating habits, tastes, and food preferences are similar to those in Hong Kong, where there is no duty imposed on canned soup and broth imports. Projections show Taiwanese consumer demand for canned soups is around 100 million cans per year. Annual canned soup consumption in Taiwan is only a little over one million cans. This compares to Hong Kong's 31 million cans with less than a third of Taiwan's population.

To put these facts in perspective, the roughly 21 million people in Taiwan today only consume 1/20th of a can soup per capita per year. Since Hong Kong's 5.8 million people are consuming over 5.3 cans per capita annually, there is undoubtedly enormous potential demand for Campbell's soup in Taiwan, demand that can only be satisfied with a significant reduction in the import duty.

Based on the CIF price entering Taiwan, the 30 percent import duty significantly increases the price Taiwan's consumers must pay for a can of soup. For example, a 14 ounce can of chicken broth that sells for 65 cents in the U. S., sells for 75 cents (U.S. ) in Hong Kong --- which has no duty on canned soup --- and sells for $1.15 (U.S.) in Taiwan.

We know of no major Taiwanese canned soup manufacturers and therefore no domestic industry to oppose liberalization of the market for canned soups. There are, however, local dry soup/ramen producers who may support duty maintenance. We hope they will take the same position taken by our company when ramen entered the United States from Asia. Rather than calling for protection, we committed ourselves to compete.

A significant reduction and GATT binding of Taiwan's 30 percent ad valorem duty to 7% will benefit U. S. suppliers far more than those from any other country. According to data published by the A. C. Nielson company (the world's leading company in surveying retail sales) the United States accounted for more than 95% of all soups and broths imported into Taiwan. The combined effect of tariff reduction to 7 percent ad valorem plus Campbell's increased attention on developing the enormous market potential in Taiwan will ensure that the U. S. remains the major supplier of canned soups and broths to Taiwan.

Again, we welcome Taiwan's prospective Accession to the GATT as befitting its major world economic role. At the same time, we urge that Taiwan greatly reduce its prohibitive duties on soup and other processed food as evidence of its international economic stature and maturity. This is particularly important in view of Taiwan's prospective GATT status as a developed, rather than a developing country. We appreciate the opportunity to share these views with the subcommittees.

CONGRESS OF THE UNITED STATES

HOUSE OF REPRESENTATIVES

COMMITTEE ON FOREIGN AFFAIRS

SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT

SUBCOMMITTEE ON ASIAN AND PACIFIC AFFAIRS

US-TAIWAN ECONOMIC RELATIONS

Testimony by James S. Arthurs, Executive Director

International Division, Gerber Garment Technology, Inc.

Tolland, Connecticut March 30, 1993

Founded in 1968, Gerber Garment Technology, Inc. (GGT) is a subsidiary of Gerber Scientific, Inc. of South Windsor, CT, and is the world's leading manufacturer of Computer Aided Design (CAD) and Computer Aided Manufacturing (CAM) systems for the apparel and sewn goods industries. Our systems are used in the areas of original apparel design, pattern development and pattern making, grading, marker making, automated cutting of fabric and limp materials and, materials handling. While the apparel industry is our major market accounting for some 70 percent of our world-wide business, our systems are also widely used by the automotive industry for manufacture of car seats, airbags and interior trim. Additional markets are in footwear, soft toys, luggage, furniture and composites in aerospace. We are in the business of factory automation with the prime purpose of our systems being to lower costs through increased productivity and better material utilization to improve response time and to improve quality and design integrity in the end product. Our system prices range from $10,000 for a software package to over $500,000 for our most expensive model of fabric cutting system.

Through 1980 the prime focus of our business was North American and Europe and GGT had grown to a level of approximately $30 million in revenues. In 1980 it was decided to aggressively expand our business and increase our exports and

we embarked on a major expansion in the Asia-Pacific region, Australasia, Latin America and Eastern Europe. Later we went on to expand into China, the Soviet Union, the Middle East and southern Africa. This was done through establishing a worldwide network primarily of Agents and Distributors with some wholly owned subsidiaries. Since 1980 we have grown to the point that in 1992 exports represent about 70% of our business and, at the retail level, annual revenues are now approximately $200 million and we have almost 8,000 systems installed in more than 80 countries around the world.

The Asia-Pacific Region was one of the major focuses of our business expansion, concentrating initially on Japan, Hong Kong, South Korea and Taiwan. These countries were, and still are, the major apparel producers in the region with Japan also being a major automobile manufacturer. At the beginning it was tough going because factory automation systems were generally perceived to be for labor saving whereas, in our case, the greatest benefit is actually in better material utilization and increased productivity in areas of production that are typically bottlenecks. The labor saving perception at that time held little attraction in countries like Hong Kong, South Korea and Taiwan where labor costs were low and labor plentiful for a typically labor intensive industry like apparel.

Another difficulty we faced was a dilemma over the type of Agent or Distributor to appoint. Our business was high technology CAD/CAM involving computers and electronics whereas our customer was the apparel industry which mainly purchased sewing and pressing machines. Agents typically involved in apparel machinery had little or no computer electronics experience or ability to service computer equipment and, on the other side, Agents for computer equipment had no knowledge of the apparel industry. Then there were the general trading companies or trading Agents who wanted to sell but didn't want any post-sale responsibility. If we chose an apparel machinery company we had to teach them about computers and electronics and if we chose a computer firm we had to teach

them about the apparel industry. Taiwan was A-typical of this scenario back in 1980 when we started doing business there.

Contacts, Buyers and Agents:

Taiwan has thousands of import/export Agents, everything from one-man road-shows to experienced and professional companies. These Agents will often deal in anything from low cost, low quality goods to expensive high-tech equipment and care should be taken in the selection process. While not unscrupulous, many are opportunistic, claiming to have good contacts with a number of potential customers and optimistically forecasting the sales potential. The so-called good contacts can sometimes turn out to be just a few old school friends or relatives in junior or middle management positions at two or three companies that may be related to your business. Product advertisements in American or European magazines are also likely to elicit enquiries from Taiwanese agents requesting representation. It is essential to properly research your specific market to appoint the right Agent rather than jump at the first opportunity based on short term potential and glit promises.

It is not too difficult to do the job right in Taiwan. There are dozens of industry specific Associations, Federations, or Institutes and these organizations can often provide detailed information on the structure, organization and condition of the specific industries. They will be able and probably willing to advise the names of major potential buyers and contacts and they will have a good idea regarding the local suppliers to that industry which could be the first step in finding an Agent. The American Institute in Taiwan (AIT) which takes care of USA relations in Taiwan can assist through its commercial section in identifying the Associations, Federations and Institutes and arranging for introductions and appointments. AIT officers will also be a good sounding board on your progress. In our own case we contacted the Taiwan Textile Federation, the Taiwan Garment Manufacturers Association and the China Textile Institute (CTI). The latter is a research organization dedicated to

industrial training, development of manufacturing techniques and testing of new methods and machinery. CTI was actually our first buyer in Taiwan.

As our Agent we appointed a small company specializing in electronics and set about teaching them the apparel industry, together identifying the ten largest apparel manufacturers as our major prospects. About five to six years ago we determined our business was growing at a faster rate than our Agent was able to maintain and we orchestrated a buy-out and transfer of our business line by and to a larger, more established company with which we had developed contacts. For a while this was a difficult period because the Taiwanese buyer prefers continuity and places great emphasis on the personal relationships that are developed. It was essential that we ensured a friendly transfer of the business and that both old and new Agents fully cooperated in the process. Despite the best of intentions, nothing goes as smoothly as anticipated, but with relatively few hiccoughs we were back on track within about twelve months with GGT playing a major role in establishing the credibility of our new Agent through technical support and personal visits by regional and headquarters' sales management.

While good local Agents are available in Taiwan, it is essential to show the face of the home office or manufacturer. Buyers need to be nurtured and confidence needs to be built in the manufacturer or seller as well as the local Agent. If the product requires post-sales support you must ensure the Agent is well trained and that you provide follow-up training and support, especially in emergency situations. Lack of proper technical support can have a disastrous effect on future business as bad news travels fast with the industry Associations often being the medium for dissemination of such news. While most business is conducted on a Letter of Credit basis, it is also necessary to be flexible with standard terms and conditions of business to suit the local environment, buyer and Agent.

Market opportunities:

Taiwan is a major exporting country with exports accounting for over 40% of GNP. Electrical machinery, textile and apparel and, general machinery and equipment making up about 50% of all exports. Taiwanese industry and especially the apparel industry has been under increasing competitive pressure from other countries in the region over the past seven to eight years. This has been primarily due to a strong New Taiwan dollar (NT$) which has revalued from 40:1 to 25:1 since 1985 coupled with rapidly escalating labor costs and, to a somewhat lesser degree, labor organization. In addition, the apparel industry, which is labor intensive, has suffered from a movement of labor into high-tech and capital intensive industries where higher pay and better conditions exist. The Taiwanese government is encouraging this movement, promoting investment in these industries through tax credits and other assistance programs.

While high-tech industries continue to grow providing many market opportunities for US companies involved in production methods and production equipment for these industries, the apparel industry has stagnated as apparel production has migrated to lower labor cost countries such as China, Thailand, Indonesia and, lately, Vietnam. In order to protect their businesses, many Taiwanese apparel companies are investing off-shore in subsidiaries, joint ventures or simply sub-contracting the production of apparel to fill their orders. Such investments are in China, Southeast Asia, Central America and Vietnam where Taiwan is currently the largest foreign investor with over $1 billion. The Taiwanese apparel industry is often referred to as being in a "sunset status".

Nevertheless, all is not doom and gloom for GGT in the apparel industry, to the contrary. The apparel industry is an integral part of Taiwan's industrial base and exports. As such, it is not going to deteriorate rapidly and it is expected to retain its position as the fifth largest apparel exporter behind Hong Kong, China, Italy and South Korea, for a number of years to come.

Apparel production in Taiwan is surviving through better production techniques, greater productivity and improved quality at lower costs. The industry Associations are encouraging development of Own Brand Manufacture (OBM) as opposed to the current contract manufacturing for foreign buyers; OBM brings added value to the exported product. All these things enhance the need for factory automation and this is where all of GGT systems are targeted. Recently, GGT has been cooperating with a quasi-governmental organization, Central Satellite Development (CSD), "an industrial coordination center and organization which protects and strengthens relationships between mainstay industry and its supportive partners". CSD has sponsored and paid for seminars by GGT to promote factory automation in Taiwan and they have recently invited us to participate in a second round of such programs.

Another ingredient to consider when selling to Taiwan is the need to tailor products or develop products specifically for the Taiwan market and Instruction Manuals need to be translated, a job your Agent can assist with. GGT recently introduced a Chinese language CAD system, recognizing that the smaller the company we sell to, the less likely it is that English language computer screens and prompts are acceptable. We also offer a lower height option on our fabric cutting systems to accommodate operators, who tend to be shorter in height. Again, flexibility is a key to success.

US Government assistance:

GGT has, from time to time, availed itself of assistance provided by the Commerce Department, State Department, Export-Import Bank or Trade and Development Agency in relation to its business in other countries. However, we have, to date, never identified a need in relation to our business in Taiwan.

In summary, I have been visiting Taiwan for almost 20 years and the changes over the last ten years have been dynamic. New construction abounds, positive political changes have taken place and business with mainland China has

commenced and grown substantially. Per capita income has increased dramatically and the country has evolved into a consumer oriented society. There is a greater awareness of and more attention being paid to rights of patents, trademarks and copyrights.

There is no doubt that Taiwan is an expanding market for US companies which are dedicated to exploring export opportunities and are flexible in their approach and application of both products and business terms and conditions.

**Testimony by James E. Howard**

**Vice President ~~and General Manager~~, Paramax Systems Corporation**

**Great Neck, New York**

to the House Committee on Foreign Affairs

Subcommittee on Economic Policy, Trade and Environment

and the Subcommittee on Asia and the Pacific

Mr. Chairman and Members of the Subcommittee:

I am James E. Howard, Vice President and General Manager of the Systems Development division of Paramax Systems Corporation located on Long Island in Great Neck, New York. Paramax, which predominately does business with the U.S. Department of Defense, is a subsidiary of the Unisys Corporation, the nation's third largest computer company. I appreciate the opportunity to testify about the Taiwan market and how the U.S. government can provide assistance to defense companies in that marketplace.

My comments will specifically address Paramax's involvement in Taiwan, but I want to note that our parent Unisys Corporation also operates a subsidiary in Taiwan for our commercial information systems business. Paramax develops and produces both defense and non-defense electronic systems. Currently, we have both a foreign military sales contract through the U.S. Navy, and a direct commercial contract and to provide high-technology systems, logistics, software, program management, engineering and support services for the integration of naval electronic systems for Taiwan. These programs are very substantial elements of our international defense business.

Our ability to produce quality systems within budget and on schedule has created opportunities ~~for us with other agencies~~ of the Taiwan government. They trust us as a supplier, and are therefore more willing to consider us for other business.

We are now conducting discussions for a number of potential contracts with Taiwan for both military and commercial systems. These include weather systems, the electronics suite for a new oceanographic research ship, production of a submarine rescue vehicle, and other defense systems. We also see possibilities, although we are not actively involved in any negotiations, for other Paramax high technology systems such as air traffic control and highway traffic systems. In the early 1990's, Taiwan announced a program to spend $300 billion in infrastructure improvement over a six-year period, exclusive of defense spending. While recent news articles indicated the spending program may be reduced somewhat, we are still looking at a potentially huge market in Taiwan for these projects, many of which involve significant levels of high technology.

We estimate that total new business to Paramax from Taiwan could range into the hundreds of millions of dollars through the year 2000. In short, Paramax has already experienced considerable success in selling products in Taiwan, and we will continue to aggressively pursue that marketplace.

Succeeding in Taiwan requires a definite sensitivity to the culture and language of the region. Due to cultural and language differences, we have found it necessary to have local representation in Taiwan, as well as having our own in-country employees. Recently, Paramax appointed a vice president of business development in the region to help us better focus on Taiwan and other Pacific Rim countries.

In contrast to the U.S. Government's "arm's length" policy, the Taiwan people place a heavy emphasis on developing personal relationships and trust before actually doing business. It took more than a year from our initial meetings in Taiwan until we signed our first contract, convincing us that personal relationships, persistence and perseverance are required for success.

The Taiwan Coordination Council for North American Affairs has been of significant help, and the American Institute in Taiwan has provided us with administrative assistance regarding security clearances and government-to-government transfers of classified material. Both organizations helped us to better understand the Taiwan market and customers. However, we would like to see our government helping U.S. firms in a more pro-active way, by serving as a strong advocate for U.S. products and companies, as is done by many of our international competitors, particularly the French.

There are other actions that the U.S. Government can take to assist us and other companies in selling high-technology and defense systems in Taiwan. U.S. companies are in tough and intensifying competition with European and Japanese companies for both military and commercial markets. We would like to see a re-examination of the Taiwan Relations Act of 1979 which puts annual spending caps on the sale of military equipment to Taiwan by the U.S. No other country has such a limitation, and it almost derailed our proposal for the oceanographic research ship. While that ship is commercial in nature, the State Department initially wanted to designate it as military, and it took a number of discussions to resolve the situation. We also believe that the geo-political situation has changed significantly since 1979 and the reason for the limitation is not currently valid.

Next, while the U.S. government has been increasingly supportive of trade with Taiwan and other nations, we are still at a disadvantage when compared with other countries. Many governments support their industry with minister-to-minister level visits, consultations and direct subsidies. Certainly, high-level government support and contacts are extremely helpful, and we strongly recommend the U.S. increase this kind of support. But more important in providing U.S. defense contractors with the ability to compete on an equal footing with foreign competitors, would be a strong U.S. government program to provide loan guarantees for sales of major defense systems to our allies and other friendly countries.

We, along with most of the U.S. defense industry, recommend that a new guarantee facility for defense products be established in the Department of Defense or the State Department, using credit guidelines similar to those of the Export Import Bank. If I may quote from a recent letter from the Aerospace Industries Association to Defense Secretary Les Aspin, signed by the chief executives of a number of leading U.S. defense companies: (quote) "A decision to include an export credit guarantee facility for defense products as part of a defense transition program is one that would be supported by the entire industry. Each $65 million in budget authority would allow the government to provide $1 billion in credit guarantees involving roughly $1.2 billion in sales, which in turn would generate at least 35,000 jobs and $250 million in tax revenue at the federal and local level." (unquote) I have included the complete text of the letter in my written testimony. As a defense supplier, we feel these are the most important steps the U.S. government could take to help defense companies compete internationally, as well as help achieve the longer-term objectives of defense conversion, and is essential if we are to help offset the decline in U.S. defense spending. That concludes my statement, Mr. Chairman. I want to thank you and the two subcommittees for inviting me to appear here today, and I would be happy to answer any questions you might have.

Aerospace
Industries
Association

The Honorable Les Aspin
Secretary of Defense
The Pentagon, Room 3E880
Washington, D.C. 20301-1000

Dear Mr. Secretary:

As representatives of the aerospace, shipbuilding and defense industries, we would like to congratulate you on your appointment as Secretary of Defense.

We look forward to working with you on a number of issues over the coming weeks and months which could have a major impact on the size and quality of the defense industry in the future. More immediately, however, as you put together your FY 94 Department of Defense budget submission, we would like to reinforce a February 12 letter from Don Fuqua to you concerning the need for a credit guarantee facility for defense exports.

You are currently making difficult decisions on the composition of the FY 94 defense budget, which will affect each of our companies differently. A decision to include an export credit guarantee facility for defense products as part of a transition program is one that would be supported by the entire industry. Each $65 million in budget authority would allow the government to provide $1 billion in credit guarantees involving roughly $1.2 billion in sales, which in turn would generate at least 35,000 jobs and $250 million in tax revenue at the federal and local level.

The defense industries in Europe and Russia are also faced with declining defense budgets. Competition has therefore intensified for the limited export markets which exist, primarily in industrial and middle income countries. U.S. products are competitive in quality and price, and have the advantage of being deployed by the world's only superpower. However, cash flow restrictions for a number of countries require that they spread their payments for capital equipment, both commercial and military, over at least part of the expected life span of that equipment. Our competitors' official export credit agencies provide loans and guarantees for military as well as commercial products. Our Export Import Bank does not.

Sales of U.S. defense equipment to friendly countries increase their ability to defend themselves at a time when we are reducing our own forward deployed troops, and provide commonality of equipment at a time when joint military operations seem likely to increase. Exports keep production lines open and the subcontractor base alive, which is particularly important when our own procurement budget is not only declining, but a larger share of that budget is being spent on prototyping new equipment involving very little actual production. Finally, such exports reduce our trade deficit, lower unit costs of equipment purchased by DoD, and increase tax revenue.

For these reasons, we urge you to include in the FY 94 budget submission a financing facility for defense exports. An initial program of $5 billion in guarantees would require a "subsidy" budget authority of $325 million, which would hopefully be available until obligated. Such a program could provide employment for up to 200,000 defense workers, engineers, and scientists in the aerospace, shipbuilding, ground equipment, and electronics industries. This program would certainly be an appropriate part of any conversion or transition package.

We hope you give serious consideration to such a proposal. We are ready to work with you on this and other industrial base issues in the months ahead.

Sincerely,

Norman R. Augustine
Chairman & CEO
Martin Marietta Corporation

James F. Hardymon
Chairman, President & CEO
Textron

Donald R. Beall
Chairman and CEO
Rockwell International Corporation

Dennis J. Picard
Chairman & CEO
Raytheon Company

Robert N. Burt
Chairman, President & CEO
FMC Corporation

Daniel M. Tellep
Chairman & CEO
Lockheed Corporation

Renso L. Caporali
Chairman, President & CEO
Grumman Corporation

A.F. Zettlemoyer
President
Paramax Systems Corp.

Duane D. Fitzgerald
President and CEO
Bath Iron Works Corporation

**TESTIMONY OF CONGRESSMAN CRAIG THOMAS**
**SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT**
**MARCH 30, 1993**

Members of the subcommittees:

I want to thank you all for holding these hearings and for allowing me to submit testimony on the subject of U.S./Taiwan economic relations.

I realize this hearing will focus on the economic aspects of our trade relationship with Taiwan and these issues are of the utmost importance. I want to address an issue outside the direct jurisdiction of this subcommittee, but one that interacts with the issues you will be discussing today. As you move forward on the economic front, I hope you'll consider some of the other things that are happening in other areas of our trade relationship with Taiwan and make policy in the context of that bigger picture.

My special interest in this hearing is Taiwan's application to join the GATT. It is vital that before the United States gives its blessing to Taiwan's application that it eliminates its 10 percent tariff on soda ash imports. Soda ash is used around the world to produce all kinds of glass. This country is blessed with a unique natural deposit of raw material for soda ash located in my state, a deposit so enormous that this country alone could supply world demand for 1300 years.

The U.S. industry's global exports have increased from $400 million in 1990 to $550 million in 1992 and is responsible for 20,000 workers, 85% of whom are directly and indirectly employed in Wyoming. The soda ash industry is the third largest employer in my great state.

The Taiwanese government has a long history of maintaining import protection for its sole, highly inefficient and polluting soda ash producer. More precisely, the U.S. industry has been working since 1985 both here in Washington and in Taipei to remove Taiwan's import restrictions. However, no progress has been made since 1989 to further reduce the 10% duty.

We are already hearing that Taiwanese government officials have told their own industry that tariff reductions on soda ash should be made <u>only after</u> approval is given by the world's trading community to join the GATT and in the context of the Uruguay Round.

This is unacceptable to the U.S. industry, to me and others in Congress and it should be unacceptable to our trade negotiators. I will make this point personally to USTR negotiators. Success will mean $17 million in <u>new</u> U.S. exports annually and 225 new U.S. jobs in what is a highly globally competitive industry.

On a final note, there are compelling trade and economic policy reasons for Taiwan to liberalize its soda ash market. First, the soda ash tariff far exceeds that applied to other inorganic chemical imports as well as other countries. Second, Taiwan's application is as a developed country, and its response to the U.S. should reflect this status. Lastly, Taiwan has the third largest trade surplus with the United States and has the highest amount of foreign reserves in the world. All of this tells us that Taiwan has a long way to go before the U.S. should support its GATT application.

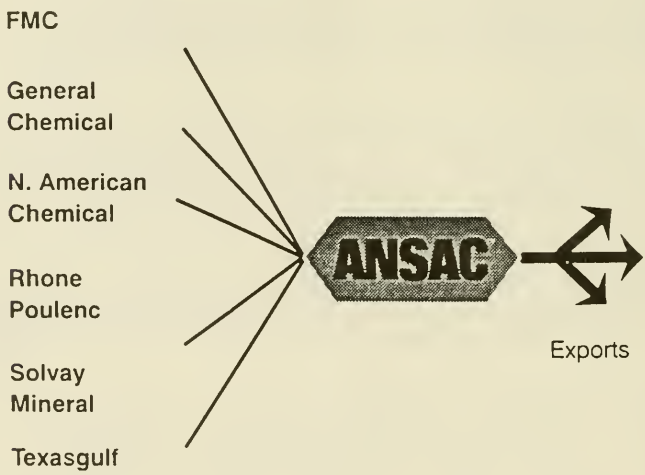
Thank you, again, for addressing these important issues and for allowing me to share a little different perspective on this debate. I look forward to working with all of you on this issue in the future.

ANSAC AMERICAN NATURAL SODA ASH CORP
8 Wright Street • Westport CT 06880 USA • Tel 203-226-9056 • Telex 4750189 • Fax 203 227 1484/9870

This statement is submitted by "ANSAC" The American Natural Soda Ash Corporation headquartered in Westport CT as part of the March 30 1993 hearing conducted by the Subcommittee on Economic Policy, Trade and Environment and the Subcommittee on Asian and Pacific Affairs on the announced intention of the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu ("China Taipei") to accede to the General Agreement on Tariffs and Trade ("GATT")

Soda ash is a white granular powder It is man's oldest commercially manufactured chemical Records of its trade are found in both Egyptian and Babylonian records. Soda ash is used in the manufacture of glass and detergents as well as in a multitude of smaller applications The most important application is, however, the glass industry which consumes about half of all soda ash

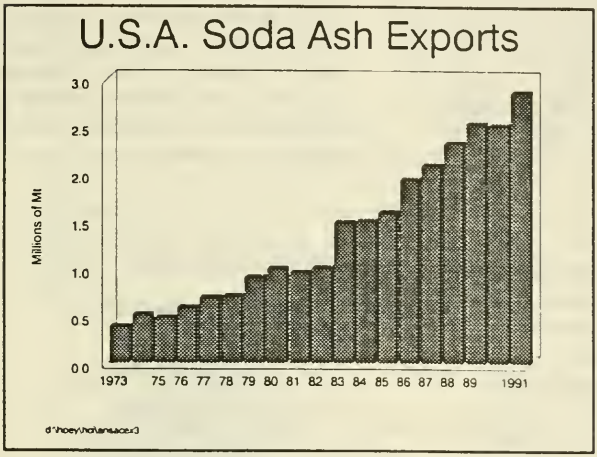
ANSAC is the sole authorized exporter of American soda ash ANSAC is a Webb-Pomerene Association wholly-owned by the six American producers of soda ash. FMC Corp General Chemical Corp., Rhone-Poulenc Wyoming Inc., Solvay Minerals Inc, North American Chemical Company and Texasgulf Chemical Company These companies produce 100 percent of American soda ash production



ANSAC has been working since 1985 to eliminate trade barriers precluding American soda ash from Taiwan. Both U S Trade officials and Taiwanese Glass producers have been active and helpful in this struggle With their good efforts the barrier has been reduced to a single 10 percent ad valorem duty We now ask that this duty be eliminated

As more thoroughly addressed later in this statement, an elimination of the duty is in both American and Taiwanese interests For the Americans it would mean an increase in trade of 115,000 tons valued at $24 million This would create an additional 500 American jobs and move Taiwan to our third largest soda ash importer out of 64

For Taiwan, duty elimination would: (1) make Taiwanese glass more competitive with imports and the world market, (2) create new jobs in Taiwan, (3) contribute toward Taiwan's priority goal of reducing pollution, (4) improve Taiwan's balance of trade with the USA without jeopardizing other trade balances (i.e. Japan).

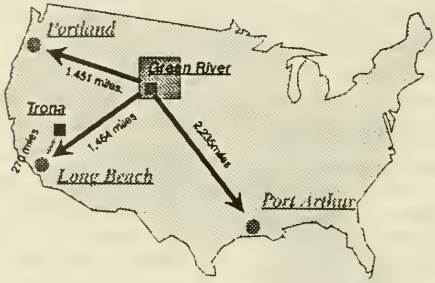



American trade officials and Taiwanese Glass producers negotiated with Taiwanese officials from 1985 through 1989 to remove import permits and lower the duty 2.5 percent Since then considerable effort has been made, but little progress. As such the bilateral negotiations in the context of the GATT accession are viewed as our only foreseeable opportunity to achieve an open Taiwanese market. For this reason ANSAC has urged the U S Government to make China Taipei's application conditional in part to removing their soda ash tariff and urges these Subcommittees to take whatever steps are possible to support U.S export interest such as ANSAC's

# The U.S. Soda Ash Industry

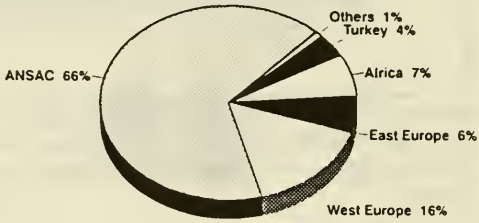
Soda ash (disodium carbonate or sodium carbonate) is the principal raw material for glass. Glass is made by mixing six parts of sand an one part of soda ash and then heating the mixture to 2,800 degrees. The resulting blob is then shaped into bottles or windows etc. The United States is blessed with a unique natural deposit of trona a raw material from which soda ash can be made. This unusual manufacturing route produces a particularly high purity product without any polluting by products. Wyoming's unique trona deposit is large enough that it alone could supply the world's demand for 1,300 years. Most other countries, including Taiwan must produce soda ash through a complicated heavy industry chemical process. Synthetic soda ash is as opposed to natural is expensive a polluter and commercially inferior.

## Six Plants at Two Production Locations, Three Ports




In that American soda ash is the world's standard of quality the industry has thrived. It is responsible for over 20,000 American jobs. Exports have grown from 1.3 million tons in 1984 to 2.8 million in 1991. Exports are valued at $500 million. ANSAC sales account for approximately 66 percent of all soda ash moved in the world's international trade.

## World Soda Ash Exports by Supplier 1991

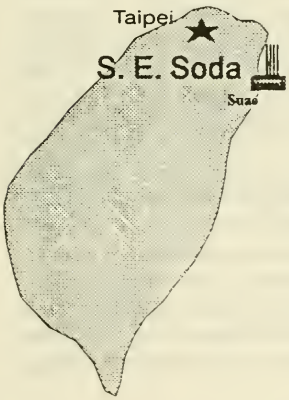


# Taiwan's Tariff Barrier and Prior U.S. Industry Efforts to Achieve Better Market Access

Soda Ash enters Taiwan under HTS No. 2836 20.00.00-2. Since August of 1989 the duty on soda ash imports has been 10 percent ad valorem.

American soda ash's struggle to access Taiwan is an old one. Most of the appropriate U.S. and Taiwanese officials have been involved at one time or another. ANSAC began urging both U.S. and Taiwanese officials to open the market as far back as 1985. At that time soda ash could only be imported with a import permit that required an endorsement by the sole Taiwanese producer (South East Soda Company). In addition their was a 15 percent duty and a 4.5 percent harbor tax to be paid once the permit was obtained. And just to add insult to injury government owned companies were only allowed to buy American soda ash, if it was 5 percent cheaper than Taiwanese product.

After a lot of hard work the import permit system was finally removed in 1987. At the same time a tariff reduction from 15 to 12.5 percent was accepted by the Executive Yuan. Import permits were removed immediately, but the legislative Yuan refused to accept the tariff reduction. Only after much additional effort by American officials and the Taiwanese glass industry was the duty reduction actually implemented in 1989. The Executive Yuan understood and accepted that it was in Taiwan's economic interest to open the market, but narrowly focused local soda ash interests were able to stall the efforts in the Legislative Yuan.




## The Taiwanese Soda Ash Market

South East Soda's plant at Suao is the only soda ash producer in Taiwan. This is not a new industry requiring protection. The plant has been operating for 43 years. The equipment has long been paid out. Nor is this an uneconomic venture. S. E. Soda's 1990 annual report gives profits as 6.9 million dollars or a 12 percent return on equity.

South East Soda produces soda ash via the "Solvay" process. This is an old heavy chemical manufacturing process essentially unchanged since 1863. The process requires, salt, energy, limestone and labor. Of these Taiwan has neither salt nor energy.

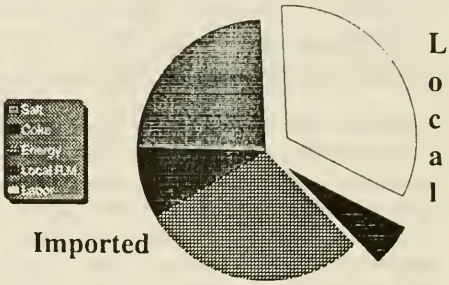
Only 35 percent of the costs for S.E. Soda are sourced on the island Their salt comes from Australia and energy from world suppliers. Only the labor and limestone is sourced locally

The result is that S.E. Soda is one of the world's highest cost soda ash producers

S.E. Soda produces about 130,00 tons per year, while the Taiwanese market will need 225,000 tons. The current market system will require that all Taiwanese consumers pay the additional duty

**Only 35 % Of S.E. Soda's**

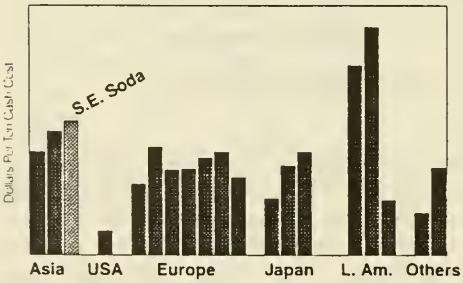
**Production Costs Are Sourced On Taiwan**




## Reasons in Support of An Elimination of Taiwan's 10 Percent tariff

As indicated earlier America is fortunate to have unique mineral deposits of trona. They allows us to produce the world's standard of quality at very competitive prices. ANSAC has been able to obtain from 50 to 100 percent of the market in all countries where free competitive forces are allowed to govern. American soda ash exports contribute $500 million to our balance of trade. Of this $24 million comes from Taiwan

**S. E. Soda Is Among The World's Highest Cost Producers**



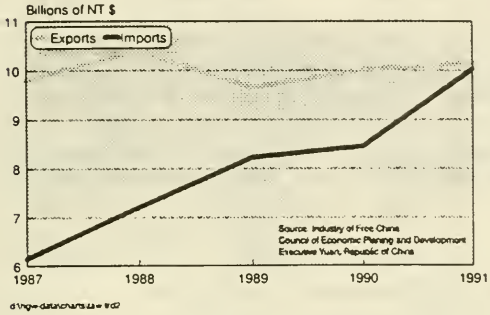

The principal beneficiary from removal of Taiwan's trade barriers would be the workers. Removal would generate 500 new jobs in Wyoming, California and Oregon. Moreover these would be high paying skilled jobs in an industry where the USA can and must compete Most of these would be in manufacturing, but ANSAC also uses fleets of trains, and modern ship loading facilities

# Reasons Why It Is In Taiwan's Interest to Eliminate Its 10 Percent Tariff

## A More Competitive Glass Industry

Soda ash is the most important raw material in the glass industry. Normally half of the cost of molten glass is the soda ash in it. On Taiwan this raises to 60 percent because of the soda ash tariff. Taiwan's glass industry employees a little under 11,000 workers. S.E. Soda employee's only 210 in soda ash. That is a ratio of slightly more than 50 to 1. It is illogical to protect so few workers at the expense of the majority. Taiwan's glass industry already faces difficult time. Glass exports have been stagnant since 1987, but at the same time glass imports continue to rise.

Taiwan's Glass Imports Increase While Exports Stagnant




In contrast to Taiwan's outdated soda ash producer, Taiwan's glass industry is world scale and modern. It is more logical to focus government policy on aiding those industries where they can be competitive. Yet Taiwan's glass industry suffers from unwarranted protection of the soda ash producer at the cost of the glass industry. Their soda ash industry can never be world competitive.

As shown on page 5 SE Soda is one of the world's highest cost soda ash producers. Clearly the painfully slow process of liberalizing Taiwan's soda ash market has been at the urging of this inefficient local producer. It simply makes little economic sense to continue protecting a inefficient polluting industry at the expense of a much larger clean industry where Taiwan can compete, if only they will change their policies.

## Taiwan's Soda Ash Duty Exceed Those in The Region

| Soda Ash Duty Neighboring Countries | |
|---|---|
| Indonesia | 5.0 % |
| Japan | 3.9 % |
| Malaysia | 2.0 % |
| Singapore | 0.0 % |

| Taiwanese Duty Rate Similar Inorganic Chemicals | | |
|---|---|---|
| Inorganic Chemical | HTS No. | Duty % |
| Sodium Hydroxide (solid) | 2815.11.00.00-8 | 2.5 % |
| Sodium Hydroxide (liquid) | 2815.12.00.00-7 | 2.5 % |
| Sodium Sulfate | 2833.19 00.00-8 | 5.0 % |
| Sodium Sulfite | 2832 10.00.00-8 | 5.0 % |
| Sodium Nitrate | 2834.10 10.00-4 | 2.5 % |
| Potassium Carbonate | 2836.40.00.00-8 | 5.0 % |

The duty rate which Taiwan has chosen does not fit in with either those of its neighboring countries or its own for similar products. Taiwan's 10 percent rate is twice that of its highest neighbor Indonesia. Likewise the duty applied is two to four times that of similar inorganic chemicals. This is particularly troublesome because sodium hydroxide, which they duty at 2.5 percent, is in many applications a direct interchangeable competitor to soda ash

## The Sole Soda Ash Producer is a Major Violator of Taiwan's Environmental Laws

South East Soda is a known environmental polluter Under the Solvay process each ton of soda ash also produces a ton of byproduct calcium chloride In that there is insufficient market for calcium chloride on Taiwan, S.E. Soda chooses to dump most of their 125,000 tons of calcium chloride in the nearby sea

Taiwan's Environmental Protection Agency lists South East Soda as a serious polluter and has them on their constant surveillance list Fines at Taiwan's maximum of $2,400 per day fine were charge for 110 consecutive days from October 1985 through January 1986. Similar fines were incurred again in January of 1987 and June of 1991. S.E. Soda's attitude appears to be to pay the fines rather than make the investments necessary to clean up their production

## Tariff elimination Will Principally Benefit The United States Rather Than Japanese Or Other Soda Ash Suppliers

In recent years Taiwan has worked to improve their trade balance with the United States. They are, however, also concerned about not worsening their trade balance with the Japanese. We would assure them that soda ash is one product where they can be comfortable that any trade concession made will fall principally to the USA and not to Japan. America is the largest supplier of soda ash in Japan. Our sales in Japan are larger than those of any of the four Japanese suppliers. In Taiwan we would point to their 1991 import statistics which show American soda ash as 83 percent of the total import.

Soda Ash Imports Taiwan 1991

| Supplier | Tons | Value NT$ | Value US$ | Market Share |
|---|---|---|---|---|
| USA | 111,002 | 507,417 | $20,297 | 85.8 % |
| Poland | 8,912 | 46,247 | $1,850 | 6.9 % |
| Aust | 5,116 | 30,633 | $1,225 | 4.0 % |
| Kenya | 3,000 | 13,955 | $558 | 2.3 % |
| Others | 1,302 | 7,166 | $287 | 1.0 % |
| Total | 129,332 | 605,418 | $24,217 | 100.0% |

## Conclusion

Elimination of Taiwan's 10 percent tariff on soda ash is a win win situation for both the USA and Taiwan. The USA will benefit by increasing American employment by 500 jobs and reducing our trade deficit. The Taiwanese will increase their competitiveness in glass production an industry where they can be competitive on a world scale. In addition Taiwan will know that this is one trade concession that will benefit their American trade imbalance without further aggravating their Japanese trade imbalance. Finally some consideration should be allowed to not continuing to favor a major polluter

In conclusion we would respectfully request that the House Foreign Affairs Subcommittees who have shown the foresight to hold hearings take whatever steps possible to support U.S. export interests such as ANSAC.

Yours very truly

James S. Skelly
Director of Planning
& Development

April 6, 1993

For further information or questions ANSAC is represented in Washington by the firm of International Business-Government Counselors Inc "IBC" Mr. John McDermid (202) 872-8181 is available to review any additional questions

BEFORE THE
SUBCOMMITTEE ON ECONOMIC POLICY,
TRADE AND ENVIRONMENT AND THE SUBCOMMITTEE
ON ASIAN AND PACIFIC AFFAIRS OF THE
UNITED STATES HOUSE OF REPRESENTATIVES
FOREIGN AFFAIRS COMMITTEE

HEARINGS CONCERNING THE
APPLICATION OF CHINA-TAIPEI
TO ACCEDE TO THE GATT

STATEMENT OF
THE HÄAGEN-DAZS COMPANY

This statement is submitted on behalf of the Häagen-Dazs Company ("Häagen-Dazs") with headquarters in Teaneck, New Jersey, as part of the March 30, 1993 hearings conducted by the Subcommittee on Economic Policy, Trade and Environment and the Subcommittee on Asian and Pacific Affairs of the United States House of Representatives Foreign Affairs Committee on the announced intention of the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu ("Chinese Taipei") to accede to the General Agreement on Tariffs and Trade ("GATT").

Any review of Taiwan's GATT Application must consider the implications of Taiwan's trade regime on U.S. exporters. The Subcommittees have a clear policy mandate to encourage Taiwan to take the necessary steps of value to this country's economic interests. Certainly, unless Taiwan is willing to unilaterally open-up its market to competitive U.S. exports, there is no reason why the Executive and Congressional Branches should lend their support to Taiwan's GATT Application.

Häagen-Dazs believes that Taiwan is its third largest potential market in the Far East. Hence, Häagen-Dazs's decision to begin exporting to Taiwan in early 1993 and its keen interest in a reduction and GATT binding of Taiwan's tariff on ice cream products (No. 2105.00.10) from 22.5 percent ad valorem to at most 7 percent ad valorem. According to Häagen-Dazs estimates, such a tariff reduction would mean a significant increase in the company's ice creams exports in 1994 and 1995.

Häagen-Dazs, the leading seller of superpremium ice cream and frozen desserts in the U.S. and Japan, is expanding its operations in Europe and the Far East. With manufacturing facilities in Woodbridge, New Jersey and Tulare, California employing over 500 U.S. workers, Häagen-Dazs enjoys total worldwide sales of over $500 million in 1991. Europe and Asia represent growing segments for Häagen-Dazs exports.

Häagen-Dazs intends to begin selling its products in Taiwan in early 1993 through a joint-venture company, 50 percent owned by Häagen-Dazs and 50 percent owned by local parties. The local concerns include the Namchow Group, which owns one of the three largest ice cream companies in Taiwan, Royal International Dairy Co., Ltd. Häagen-

Dazs's exports to Taiwan will be shipped from California in refrigerated containers, stored in a warehouse leased by the joint venture, and distributed to retail outlets in refrigerated trucks owned by Royal International Dairy Co, Ltd.

At Taiwan's present tariff of 22.5 percent ad valorem on ice cream products Häagen-Dazs anticipates selling its product at prices which are nearly double that in the United States. This is due principally to the extraordinarily high Taiwanese tariff on the company's imports.

Taiwan's ice cream market is worth approximately $275 million and is growing at 15 percent per year. By 1995, the total ice cream market should be well over $350 million.

If the tariff on ice cream is reduced (and GATT bound) from 22.5 percent to 7 percent, Häagen-Dazs estimates that its sales in Taiwan would increase significantly.

A reduction in the ice cream import duty from 22.5% to 7% would reduce Häagen-Dazs Taiwan's cost of goods. This cost of goods savings could be used as follows: (a) as savings passed on to the Taiwan consumer in the form of a lower retail selling price; or (b) as savings used by the Häagen-Dazs Taiwan joint venture to invest additional money in local marketing to support Taiwan sales. In either case, a lower import duty would lead to an increase in Häagen-Dazs Taiwan ice cream sales.

Not only Häagen-Dazs, but other U.S. exporters as well would benefit from a lower Taiwanese tariff on ice cream. In 1991 the U.S. accounted for nearly 70 percent of imports entering under Taiwanese tariff number 2105.00.10 (see Attachment A).

Häagen-Dazs competes in the superpremium/premium segment of the ice cream market. Within that segment, Häagen-Dazs has already captured a relatively large percentage of the Japanese market share after only eight years. The nearest competitors for Häagen-Dazs in Taiwan will be imported brands such as Mars and Unilever.

Taiwanese ice cream companies produce low quality ice cream that is not directly

competitive with that of Häagen-Dazs. Local Taiwanese producers use milk powder rather than fresh milk because dairy prices are extremely high and the supply of milk is limited. As a result, all local ice cream brands are of average quality.

Still, Taiwanese ice cream manufacturers have an interest in resisting tariff reductions that would provide greater opportunities for foreign producers of average quality ice cream to export to Taiwan. These average quality imported brands would probably come from the U.S., New Zealand or Australia and would enjoy the competitive benefits of using fresh dairy ingredients.

Taiwan made a commitment in its 1989 Trade Action Plan to reduce the average level of tariffs on agricultural products from 25.99 percent in 1988 to 19.82 percent by 1992. But the Trade Action Plan did not lower the 22.5 percent ad valorem tariff on ice cream products. In fact, the Plan's average level of tariffs on processed foods such as ice cream effective January 1, 1992 is 36.7 percent ad valorem. Indeed, most of the tariff reductions implemented by Taiwan were on agricultural commodities used by Taiwanese producers rather than on higher value-added U.S. exports such as processed food. This type of tariff escalation results in a higher effective rate of protection for Taiwanese manufacturers.

Along with other U.S. processed food exporters, Häagen-Dazs would like to see Taiwan not only slash its tariffs but also address such tariff escalation in order to accede to the GATT. Specifically, Häagen-Dazs's priority is the reduction of Taiwan's 22.5 percent ad valorem tariff on ice cream products to 7 percent ad valorem. As described above, this reduction would significantly increase U.S. ice cream exports to Taiwan, particularly premium brand ice cream products such as those exported by Häagen-Dazs.

Respectfully submitted on behalf of the Häagen-Dazs Company,

John F. McDermid
President
International Business-Government

PRINCIPAL ICE CREAM SUPPLIERS
TO THE TAIWANESE MARKET
(HTS NO. 2105.00.1000-8)

| COUNTRY | QUANTITY (KG) | VALUE (NTW) | VALUE US$ | PERCENTAGE OF TOTAL |
|---|---|---|---|---|
| AUSTRALIA | 39,175 | 3,301 | 123.17 | 10.8% |
| GERMANY | 18,737 | 1,012 | 37.76 | 3.3% |
| NEW ZEALAND | 16,595 | 586 | 21.86 | 1.9% |
| S. AFRICA | 11,395 | 938 | 35.00 | 3.0% |
| USA | 240,567 | 20,403 | 761.30 | 67.0% |
| N. AFRICA | 18,500 | 1,403 | 52.35 | 4.6% |
| OTHER | 344,969 | 2,797 | 104.36 | 9.2% |
| TOTAL | 369,518 | 30,440 | 1135.82 | ***** |

BEFORE THE
SUBCOMMITTEE ON ECONOMIC POLICY,
TRADE AND ENVIRONMENT AND THE SUBCOMMITTEE
ON ASIAN AND PACIFIC AFFAIRS OF THE
UNITED STATES HOUSE OF REPRESENTATIVES
FOREIGN AFFAIRS COMMITTEE

HEARINGS CONCERNING THE
APPLICATION OF CHINA-TAIPEI
TO ACCEDE TO THE GATT

STATEMENT OF
PILLSBURY COMPANY

This statement is filed on behalf of the Pillsbury Company ("Pillsbury"), with headquarters in Minneapolis, Minnesota as part of the March 30, 1993 hearings conducted by the Subcommittee on Economic Policy, Trade and Environment and the Subcommittee on Asian and Pacific Affairs of the United States House of Representatives Foreign Affairs Committee on the announced intention of the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu ("China Taipei") to accede to the General Agreement on Tariffs and Trade ("GATT").

By definition, a review by the Subcommittees of Taiwan's Application to join the GATT must consider what must be done by Taiwan in terms of introducing new trade liberalizations before the United States gives its approval to the Application. Translated, this means that the Subcommittees should be aware of U.S. exporters' market access priorities.

Pillsbury's highest market access priority in Taiwan is the significant reduction to at least 7 percent ad valorem of Taiwan's prohibitively high 20 to 35 percent tariffs facing the company's consumer brand products such as canned sweet corn, frozen peas, frozen mixed vegetables, and frozen sweet corn. These high tariffs make market entry difficult.

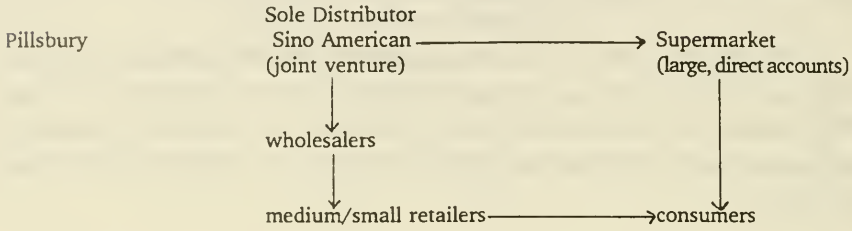
Pillsbury supports the bilateral negotiations that will take place with Taiwan. Pillsbury views these negotiations as key to achieving better tariff treatment and therefore better access to the Taiwanese market. Without significantly reduced tariff barriers on processed foods such as those exported by Pillsbury the company will continue to have difficulties increasing its U.S. exports to Taiwan.

Pillsbury primarily manufactures and markets frozen and shelf-stable food products. Pillsbury employs over 16,000 full-time and seasonal employees in 26 facilities located throughout the nation.

Pillsbury's Green Giant name has become closely associated worldwide with high quality vegetable products of all kinds: fresh, frozen and canned. Green Giant operates fifteen consumer vegetable production facilities in the United States, located in

Washington, Illinois, California, Idaho, Minnesota and Wisconsin.

Pillsbury has exported canned sweet corn and various frozen vegetables to Taiwan for several years. The company has established a joint venture in Taiwan named Sino American Great Wall Industrial Co. Ltd. The distribution chain is as follows:




Pillsbury seeks reductions to 7 percent ad valorem on the following tariffs:

Priority Requests for
Tariff Reductions

| Product | Taiwanese Tariff | Duty Rate* |
|---|---|---|
| 1. frozen peas | 0710.21.00 | 30.5% |
| 2. frozen mixed vegetables | 0710.90.00 | 35.5% |
| 3. frozen sweet corn | 0710.40.00 | 25.5% |
| 4. canned sweet corn | 2005.80.10 | 20.5% |

*Rates include 0.5% harbor tax.

While less of a priority, Pillsbury also seeks increased U.S. exports through the reduction of Taiwan's 35 percent ad valorem tariff on frozen broccoli (HTS No. 0710.89.90).

Pillsbury estimates that U.S. exports to Taiwan would increase significantly should import duties fall to 7 percent ad valorem on the company's priority U.S. exports. Indeed, the company expects a significant increase in U.S. canned sweet corn, frozen peas and frozen mixed vegetable exports. The market for frozen vegetables presents an important sales opportunity in Taiwan. Taiwan's consumers often prefer frozen vegetables to canned goods, especially during the typhoon season when fresh vegetables prices rise dramatically. Large institutional buyers increasingly purchase frozen vegetables which are "frozen like fresh."

A reduction to 7 percent ad valorem of the Taiwanese tariff on canned sweet corn will principally benefit the United States which, in 1991, had 97 percent of the Taiwanese market (importing 12,980 of 13,263 metric tons). It is believed that Taiwan has reduced its duty on canned sweet corn over the past several years principally because there are no local Taiwanese producers that supply canned vegetables. Similarly, the U.S. market share in Taiwan for frozen mixed vegetables and sweet corn is also significant, reaching nearly 60 percent and 80 percent respectively, in 1991.

No major Taiwanese suppliers of canned and frozen vegetables directly compete with Pillsbury. If there is resistance to tariff liberalization in Taiwan it would stem from the unfounded belief that protection of local farmers and fresh vegetable growers is necessary. On this point, it is clear that Pillsbury's high quality frozen and canned foods create new market niches and to a large extent supplement the local fresh vegetable market.

It is important for members of the Subcommittee to be aware that Taiwan made a commitment in its 1989 Trade Action Plan to reduce the average level of tariffs on agricultural products from 25.99 percent in 1988 to 19.82 percent by 1992. The Trade Action Plan did not, however, lower the high tariffs on most of Pillsbury's U.S. exports. In fact, Pillsbury still faces an average 22 percent ad valorem duty on its processed foods imports.

The United States and Pillsbury in particular is a world leader in the frozen and

canned vegetable market. In the absence of tariff and related barriers to its exports, Pillsbury can compete effectively, thereby increasing U.S. exports and U.S. jobs dependent upon these imports.

Pillsbury sees the U.S. and Taiwan bilateral GATT accession consultations as the only realistic opportunity to open-up Taiwan's market in the foreseeable future. We therefore urge the House Foreign Affairs Subcommittees to consult with USTR negotiators on the progress of the negotiations and to insist with the Taiwanese that tariffs be significantly reduced on these products as a condition to GATT entry.

Respectfully submitted on behalf of
Pillsbury Company,

John F. McDermid
President
International Business-Government
Counsellors, Inc. (IBC)

COMMENTS OF WINE INSTITUTE ON
TAIWAN'S APPLICATION FOR ACCESSION
TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

SUBMITTED TO THE U.S. HOUSE OF REPRESENTATIVES FOREIGN AFFAIRS
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT
AND SUBCOMMITTEE ON ASIA AND THE PACIFIC

## I. INTRODUCTION

Wine Institute is seriously concerned about the terms that will ultimately determine Taiwan's accession to the GATT. Especially disconcerting to Wine Institute is the Taiwanese Government's consistent failure to honor import tariff and tax reduction requests of the United States on alcoholic beverages in general, and wine products in particular. Wine Institute maintains that Taiwan make significant trade concessions -- particularly in its discriminatory tariff and tax regime -- in exchange for U.S. support of its application to join the GATT.

Although Taiwan ranks as one of the least penetrable markets for U.S. wine exports due to various government-imposed trade barriers, it is one of the few markets in which U.S. exporters have captured a greater percentage of imported market share than their major competitors. With its impressive economic growth rates, growing per capita income, and expanding wine consumption, Taiwan could potentially become a large market for U.S. wine exports. However, the Taiwanese monopoly tax system currently in place impedes greater market access for U.S. wines.

The Taiwanese Government currently imposes high, non-transparent and discriminatory monopoly taxes on wine imports -- up to 350 percent ad valorem -- in order to protect its domestic wine industry. The discriminatory and non-transparent nature of these monopoly taxes is well-documented and has been an ongoing point of contention between the U.S. and Taiwanese governments since their imposition in 1986. The monopoly tax assessed on wine imports is contrary to fundamental GATT principles of transparency and national treatment. As such, this issue needs to be resolved before Taiwan can become a GATT member.

While Taiwan's eventual GATT membership is expected to increase overall U.S. business opportunities, Wine Institute believes that these opportunities will not be fully realized without resolution of trade barrier issues such as those pertaining to wine imports prior to Taiwan's GATT accession. Based on Taiwan's past intransigence to reduce trade barriers on U.S. wines, the U.S. wine industry fears that if Taiwan is not required to reform its monopoly tax system as a pre-condition to its accession to the GATT, which it so desperately desires, it will continue its unfair monopoly trade practices indefinitely into the future to the detriment of U.S. wine producers/exporters.

## II. TAIWAN'S FAILURE TO HONOR U.S. REQUESTS FOR TARIFF AND TAX LIBERALIZATION

The Taiwanese Government's consistent failure to honor tariff and tax liberalizing requests of the United States is troubling to many U.S. industries. For example, in May 1989 -- due to pressure from the United States Congress to reduce its massive trade surplus with the United States -- Taiwan implemented an Action Plan for Strengthening the Economic and Trade Ties with the United States ("Trade Action Plan"). The intent of the

Trade Action Plan was to reduce tariff rates on industrial and agricultural products of interest to the United States by 1992. On January 1, 1992, Taiwan finally implemented its 1990 tariff reduction package, but in so doing did not reduce tariffs on the vast majority of products identified by the U.S. Government as priority items.

Regarding agricultural processed foods, the average Taiwanese import tariff is currently almost 40 percent ad valorem as compared to only 7 percent ad valorem in the United States -- an unacceptable disparity in tariff rates. For wine products, because of the monopoly tax system in place, the effective Taiwanese import duty is over 300 percent above the average Taiwanese duty assessed on other processed food products.

U.S. government sources indicate that the Taiwanese Government does not plan to act on further tariff reductions until after its accession to the GATT. It is clear that Taiwan has not lived up to its tariff liberalization commitments to the United States in an attempt to protect its market from highly competitive U.S. value added products. This should be unacceptable to the U.S. Government as it is to U.S. exporters.

## III. TAIWANESE BARRIERS TO WINE TRADE

U.S. wine exports presently face substantial trade barriers in Taiwan that serve to protect the domestic industry. These barriers include: monopoly production/importation/distribution practices; unreasonably high, discriminatory monopoly taxes; limits on retail profit margins; and burdensome documentation, advertising and labelling requirements. These trade barriers have allowed the government-run alcoholic beverage monopoly, the Taiwan Tobacco and Wine Monopoly Board (TTWMB), to effectively control 85 percent of the Taiwanese wine market.

Prior to 1986, U.S. wine products were virtually banned from the Taiwanese market due to the TTWMB's excessive control of the importation and distribution of wine products. After a U.S. government-initiated Section 301 action and substantial negotiations in 1986, the Taiwanese Government entered into an agreement with the United States designed to open the Taiwanese market to U.S. wines among other products. Subsequently, the TTWMB imposed monopoly taxes in the amount of NT$119 per liter (or 350 percent ad valorem equivalent) for wines, and NT$45 per liter (or 119 percent ad valorem) for wine coolers.

As a result of the 1986 Agreement, Taiwan lifted its ban on wine imports and set the unreasonably high monopoly taxes referred to above, in place of import tariffs and internal taxes, with the understanding that future reductions would follow. Since that time, not only has the Taiwanese Government failed to reduce the unreasonably high monopoly taxes, but it has also failed to properly disclose information to the U.S. Government and the U.S. wine industry on what comprises the monopoly tax and how it is assessed on imports vs. domestic wine products.

Although U.S. wine exporters have had good working relationships with Taiwan distributors and retailers since the opening of the Taiwanese market, it is extremely difficult for them to compete with Taiwanese government-produced wine products because of the prohibitive monopoly tax assessed on wine imports. The non-government distribution network for wines and other alcoholic beverages is anxiously awaiting an open market, but this will not happen as long as the monopoly taxes are maintained.

## IV. THE DISCRIMINATORY AND NON-TRANSPARENT NATURE OF THE TAIWANESE MONOPOLY TAX ON WINE

As stated above, the Taiwanese monopoly tax is set unreasonably high relative to the average wine import tariffs in other countries[1]. Furthermore, Taiwan's consistent failure to disclose how the monopoly tax is calculated and assessed on wine imports vs. domestic wines is contrary to GATT principles of transparency and national treatment.

According to Article III of the GATT, products of the territory of any GATT contracting party imported into the territory of another GATT contracting party "shall not be subject, directly or indirectly, to internal taxes or internal charges of any kind" [and to other regulations or requirements affecting the internal sale of the products]" in excess of those applied of any kind, directly or indirectly, to like domestic products" so as to protect domestic production.

Despite the TTWMB's statements to the contrary, the monopoly tax assessed on wine imports is not being applied equally to domestic wines. In order to be selling domestic wines at the low retail prices Taiwanese wines are presently selling for in Taiwan, the TTWMB is either subsidizing domestic wine production with the profits it is accruing from the imposition of the monopoly tax or charging significantly lower taxes on domestic wines. Because the TTWMB has failed to make clear what comprises the monopoly tax and how it is applied to imported and domestic wines, Wine Institute can only conclude that it is being applied discriminatorily. This practice is inconsistent with GATT Article III and, therefore, clearly needs to be resolved prior to Taiwan's accession to the GATT.

In addition, the TTWMB's failure to date to disclose to the U.S. Government's satisfaction, the methodology used to assess the monopoly tax on imported and domestic wines violates Article XVII of the GATT. This Article implies that where a contracting party "has reason to believe a state enterprise is adversely affecting its interests," the contracting party maintaining such enterprise must supply information about its operations. The U.S. Government and wine industry have made numerous disclosure requests without success.

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[1]Wine import tariffs in the U.S. range from 3.2 to 16.7 percent ad valorem; and average wine import tariffs in Asian countries range from 8 to 60 percent ad valorem.

## V. IMPACT OF THE ELIMINATION OR SUBSTANTIAL REDUCTION OF THE TAIWANESE MONOPOLY TAX ON U.S. WINE EXPORTS TO TAIWAN

Because of the unreasonably high monopoly tax imposed on U.S. wine imports, the TTWMB successfully controls approximately 85 percent of the Taiwanese wine market. About 15 percent of the total Taiwanese wine market is attributable to imports, with only approximately 6 percent attributable to imports of U.S. wines. The discriminatory effects of the TTWMB monopoly tax on especially medium and popular-priced wine imports have impeded greater market access for U.S. wines in Taiwan. The nature of the specified per liter monopoly tax impacts medium and popular-priced wines exported by the United States to a greater degree than higher-priced wines exported by the European Community.

Taiwan is one of the few wine markets in which U.S. wine exporters have captured a greater percentage of imported market share than their major EC competitors, who maintain approximately a 4 percent share. The elimination or substantial reduction of the monopoly tax could expand the U.S. share of the Taiwanese wine market significantly based on general socio-economic trends applicable to Taiwan in terms of growing per capita income and increasing wine consumption, as well as the U.S. wine industry's market development efforts there. With a growing population and per capita income, market studies indicate that the Taiwanese wine market has been growing at the rate of over 10 percent per year and could continue to grow at this rate for the next five years. Given the anticipated growth rate of the Taiwanese wine market, the current import market share position of U.S. wine exporters, and the potential trade barrier reductions resulting from the GATT accession process, Taiwan represents one of the most promising export markets for U.S. wines.

## VI. CONCLUSION: WINE INSTITUTE'S POSITION WITHIN THE CONTEXT OF NEGOTIATIONS ON TAIWAN'S ACCESSION TO THE GATT

In view of the longstanding requests by the U.S. wine industry for better market access in Taiwan and its fruitless past efforts to achieve reductions in the monopoly tax, Wine Institute views the GATT accession process as the only opportunity in the foreseeable future to achieve greater access to the Taiwanese market for U.S. wine exports. For this reason, we urge the U.S. Government not to approve Taiwan's GATT application until the issues of transparency, national treatment and reductions in the monopoly tax on wine imports are resolved.

The U.S. Government should not support Taiwan's application for GATT membership unless Taiwan: (1) eliminates the monopoly taxes on wine products and replaces them with reasonable import tariffs and domestic taxes (e.g., harbor, excise, value added); (2) subsequently eliminates or substantially reduces the import duties set on wines to at least 5 percent ad valorem, reciprocal to average U.S. wine import duties; and (3) guarantees that domestic taxes will be applied to imported and domestic wines alike.

The fulfillment of these goals will ensure that Taiwan's tariff and tax regime vis a vis wine products is GATT-consistent and will expand opportunities for U.S. wine exports in the Taiwanese market. To gain the benefits of GATT membership, the U.S. Government must insist that Taiwan make significant trade concessions such as those outlined above for wine imports prior to its accession.

BRANDY EXPORT ASSOCIATION

The Honorable Sam Gejdenson
Chairman
House Committee on Foreign Affairs
Subcommittee on Economic Policy, Trade
and Environment
Washington, DC 20515

RE: Comments of the U.S. Brandy Export Association on the Issue of Taiwan's Accession to the General Agreement on Tariffs and Trade

Dear Congressman Gejdenson:

On behalf of the U.S. Brandy Export Association (USBEA), I am submitting comments to be included in the record of the joint subcommittee hearing held on March 30, 1993, on Taiwan's accession to the General Agreement on Tariffs and Trade (GATT). The USBEA is a trade association which represents the interests of producers and marketers of more than 75% of American brandy.

The USBEA is seriously concerned about the terms under which Taiwan will accede to the GATT, because it views Taiwan as a market with significant potential for U.S. brandy exports. Especially disturbing to the USBEA is the Taiwanese Government's consistent failure to honor past tariff and tax liberalizing requests of the United States. In exchange for U.S. support of its application to accede to the GATT, the USBEA maintains that the U.S. Government should require Taiwan to make certain trade concessions -- particularly in its monopoly tax structure which greatly impedes market access for U.S. alcoholic beverages in general, and brandy in particular.

Prior to 1991, U.S. distilled spirits imports were prohibited from entering into the Taiwanese market due to the discriminatory practices of the state-run monopoly, the Taiwan Tobacco and Wine Monopoly Board (TTWMB), which controls the domestic production, distribution and sale of alcoholic beverages in Taiwan. It was not until April 1991, after a Section 301 petition was filed by the U.S. distilled spirits industry, that the Taiwanese Government agreed to open its market to certain distilled spirits imports such as whiskey. U.S. brandy imports did not receive market access until September 1992.

Despite the "official opening" of the Taiwanese distilled spirits market, U.S. brandy exports currently face very high, discriminatory monopoly taxes of over 450 percent ad valorem imposed by the TTWMB in order to protect Taiwan's domestic industry. These taxes make it virtually impossible for U.S. brandy exporters to attain market share in Taiwan. Not only are these taxes set unreasonably high relative to the TTWMB monopoly tax assessed on other distilled spirits imports and the U.S. brandy import tariff, but they are also inconsistent with GATT national treatment principles because they are not assessed on imported and domestic brandy products alike.

Based on these facts, the U.S. Government should require Taiwan to implement a tariff and tax regime for alcoholic beverages in general, and brandy in particular, which does not discriminate against imports of such products and is consistent with GATT principles. This should be required of Taiwan prior to its accession to the GATT. Specifically, Taiwan must:

- Immediately establish an import tariff rate comparable to the lowest ad valorem monopoly tax currently applicable to distilled spirits imports in Taiwan (i.e., 87 percent applicable to cognac and armagnac). Subsequently, Taiwan must reduce this brandy import tariff rate over a specified transition period (i.e., no greater than five years) to the level of the U.S. tariff rate (i.e., 1 percent).

- Establish regulations prohibiting government control of importer, distributor, wholesaler or retailer markups or margins for distilled spirits.

- Establish and apply internal excise taxes for distilled spirits in compliance with GATT national treatment principles to avoid favoring locally produced products distributed by government-controlled monopoly enterprises over imported products.

The U.S. Government should also require Taiwan to:

- Establish advertising regulations which apply equally to imported and domestic distilled spirits.

- Establish regulations to ensure trademark and appellation of origin protection for distilled spirits.

- Establish fair and reasonable tariff rates for other distilled spirits products which may be recommended and supported by producers and marketers of those products.

- Establish regulations which will prevent smuggling and counterfeiting of distilled spirits.

The USBEA believes that Taiwan's accession to the GATT must be conditioned upon the fulfillment of these goals.

Based on the Taiwanese Government's reluctance to grant even minimal market access concessions to U.S. distilled spirits exports in the past and its fervent desire to become a GATT member as soon as possible, the USBEA believes that the U.S. Government should exercise its leverage in securing concessions from the Taiwanese Government for U.S. distilled spirits exporters before rather than after Taiwan's accession to the GATT. Based on the stability and impressive growth rates of the Taiwanese economy, the USBEA believes that Taiwan's eventual membership in the GATT will enhance U.S. business opportunities if certain changes to its trade regime, such as the ones identified above, are secured prior to its accession to the GATT.

Attached please find the USBEA's statement sent to the Office of the U.S. Trade Representative in November 1992, in response to its solicitation of public comments on the development of the U.S. position for the negotiations that will determine Taiwan's terms of accession to the GATT. The statement reviews in detail the USBEA's concerns with respect to Taiwan's trade barriers on alcoholic beverages in general, and brandy in particular. It also comments on the general impact of Taiwan's accession to GATT on U.S. trade, the experiences of U.S. firms in trading with Taiwan, and the structure and conduct of Taiwan's trade policies.

We respectfully request that the issues presented in this letter and the attached statement be carefully considered by the House Foreign Affairs Subcommittee on Economic Policy, Trade and the Environment, and Subcommittee on Asia and the Pacific Rim in their examination of Taiwan's GATT application.

Sincerely,

Robert Ivie
President

Attachment

COMMENTS OF THE U.S. BRANDY EXPORT ASSOCIATION ON
THE ISSUE OF TAIWAN'S ACCESSION
TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

SUBMITTED TO THE U.S. HOUSE OF REPRESENTATIVES FOREIGN AFFAIRS
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT
AND SUBCOMMITTEE ON ASIA AND THE PACIFIC

BRANDY EXPORT ASSOCIATION
1 Market Plaza, Suite 1111
San Francisco, California 94105
U.S.A.

Carolyn Frank
Secretary
Trade Policy Staff Committee
United States Trade Representative
Room 523
600 17th Street NW
Washington, D.C. 20506

RE: Comments of the U. S. Brandy Export Association on U. S. Negotiations with Taiwan in the Content of Accession of the Separate Custom's Territory of Taiwan, Penghu, Kinmen and Matsu to the GATT.

Dear Ms. Frank:

This letter is written on behalf of the U.S. Brandy Export Association (USBEA) which represents the interests of producers and marketers of more than 75% of American brandy and responds to the request of the Trade Policy Staff Committee (TPSC) of the United States Trade Representative (USTR) for public comments on U.S. negotiations with Taiwan in the context of the Accession of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu to the General Agreement on Tariffs and Trade (GATT).

In the October 20, 1992 Federal Register notice (57 Fed Reg 47890) the TPSC requested comments on a number of aspects relevant to Taiwan's accession to the GATT including: (1) the impact of Taiwan's accession to the GATT on U.S. trade; (2) experiences of U.S. firms in trading with Taiwan; (3) the structure and conduct of Taiwan's trade policies; (4) barriers to trade with Taiwan.

In addition to commenting on these general areas, the attached statement will review Taiwan's trade regime with respect to alcoholic beverage in general and grape brandy in particular.

The United States Brandy Export Association is seriously concerned by the Taiwanese government's consistent failure to honor tariff liberalizing requests of the United States in general; and to offer reasonable tariff reductions on imports of U. S. Brandy in particular. The Taiwanese government currently imposes a highly discriminatory monopoly tax on brandy imports. This issue has been raised previously by the USTR within the context of bilateral consultations with Taiwan without success.

For the reasons outlined in the attached statement, the USBEA respectfully requests that this trade barrier issue be addressed by the USTR within the context of bilateral and multilateral negotiations related to the GATT accession process for Taiwan. The substantial reduction in the Taiwanese monopoly tax imposed on brandy imports should be made a pre-condition for Taiwan's accession to the GATT.

Enclosed please find 20 copies of the public version of the USBEA statement in accordance with the USTR's requirements. There is no business confidential version. We appreciate the USTR's consideration and efforts in this matter.

Sincerely,

Robert Ivie
President

**UNITED STATES BRANDY EXPORT ASSOCIATION (USBEA)**
**STATEMENT IN THE MATTER OF TAIWAN'S GATT ACCESSION**
**NOVEMBER 13, 1992**

## I. THE TAIWAN BRANDY MARKET:

In 1991 the Taiwan grape brandy market represented sales totalling U.S.$247 million (see Appendix 1). In this context, it should be noted that as of 1991 the first case of U.S. brandy had not been sold in Taiwan. In 1991 domestic brandy sales were 348,511 cases with a retail value of U.S.$81.8 million, and imported brandy sales were 530,297 cases with a retail value of U. S.$166.1 million. The total market for grape brandy in 1991 was 878,000 cases with a retail value of U.S.$247 million.

The Taiwanese market for grape brandy has been manipulated since the 1950's to protect the interests of the Taiwan Tobacco and Wine Monopoly Board (TTWMB), an agency of the Taiwan government which controls the production, distribution and sale of brandy and other alcoholic beverages in Taiwan. The manipulation was accomplished through the control of listing and markup policies of the TTWMB. The TTWMB establishes excessively high "monopoly revenue charges" on imported products so that it can earn excessively high profits on its domestically produced grape brandy. For example, in 1991 French brandy was imported at a value of U.S.$412.69 (see Appendix 2) but sold at a retail value of $592.60 per case after the TTWMB monopoly tax of $180.00 per case was imposed. By comparison, in 1991 the retail value of Taiwan's domestic brandy was U.S.$233.33 per case (see Appendix 3).

Through market and markup manipulation, the TTWMB is able to earn huge profits on imported brandy and maintain competitive price advantage for its domestic brandy of U.S.$359.27 per case (i.e., the difference between U.S.$592.60 per case for imported brandy and U.S.$233.33 per case for domestic brandy). This equates to a per bottle retail price advantage of U.S.$29.90 for domestic brandy.

Concurrently, through its listing policies the TTWMB restricted the importation of any grape brandy that would compete with its market manipulation policies. These combined policies have prohibited exports of U.S. grape brandy to Taiwan.

## II. OPENING THE TAIWAN DISTILLED SPIRITS MARKET:

In December 1990 certain U.S. spirit associations brought a Section 301 case against Taiwan to eliminate the discriminatory practices of the TTWMB related to U. S. distilled spirits imports. Taiwan responded to the 301 Petition by agreeing unilaterally in January 1991 to allow imports of distilled spirits into the general market. This meant that the TTWMB would no longer be able to restrict imports through its control of listings. It also meant that

distilled spirit exporters could make direct arrangements with Taiwan's importers, distributors and retailers.

Taiwan opened the market to whiskey in April 1991 and to other distilled spirits at subsequent dates. Grape brandy was not provided market access until September 1, 1992. Subsequent to Taiwan's announcement of the market opening, the distilled spirits associations withdrew their Section 301 petition.

What remains in place in Taiwan in 1992 are unreasonably high TTWMB "monopoly revenue charges" which are designed to make it impossible for U.S. brandy to attain a share of the Taiwan grape brandy market. As shown in the following table, the TTWMB "monopoly revenue charge" for imported grape brandy is NT $500 per liter or $180.00 per case. This equates to a 450% ad valorem charge on U.S. brandy with an average c.i.f. value of $40.00 per case in Taiwan.

The "monopoly revenue charge" is not only unreasonably high it is especially discriminatory to U.S. brandy because it applies substantially lower ad valorem charges to other distilled spirits. In addition the monopoly charge on brandy is in violation of GATT National Treatment principles because it translates into higher charges on brandy imports relative to charges levied on domestic brandy.

| PRODUCT | TTWMB MONOPOLY REVENUE CHARGE | | TAIWAN c.i.f. | TTWMB MONOPOLY REVENUE CHARGES AS % OF TAIWAN c.i.f. |
|---|---|---|---|---|
| | NT$/Liter | US$/Case | US$/Case | |
| Irish & Scotch Whiskey | 440 | 158.40 | 150.56 (1) | 105% |
| Other Whiskey | 198 | 71.28 | 40.53 (2) | 144% |
| Cognac & Armagnac | 1000 | 360.00 | 412.69 (3) | 87% |
| Other Brandy | 500 | 180.00 | 40.00 (4) | 452% |
| Other Spirits | 225 | 81.00 | 40.00 (5) | 202% |

(1) See average value per case of total whiskey imports in Appendix 4.
(2) See average value per case of U.S. whiskey imports in Appendix 4.
(3) See average value per case of imports from France in Appendix 2.
(4) See average value per case of gin imports in Appendix 4.
(5) Estimated average value per case of U. S. grape brandy.

## III. USBEA'S REQUEST FOR DUTY REDUCTIONS PRIOR TO TAIWAN'S GATT ACCESSION:

To comply with GATT regulations, Taiwan must be required to establish reasonable tariffs for distilled spirits products and establish excise taxes or "monopoly revenue charges" which are the same for imported and domestic products of like kind.

We believe that it would only be fair and equitable if Taiwan establishes tariff rates for distilled spirits which are comparable to U.S. tariff rates and that this should be made a pre-condition for U.S. support of Taiwan's entry into GATT.

The U.S. tariff rate for grape brandy with a value of U.S.$3.43 per liter (U.S.$30.87 per case) is U.S.$.132 per proof liter or U.S. $.95 per case based on a 9 liter case of brandy at 40% alcohol. This equated to an average tariff of 0.9% in 1991 on all grape brandy imported into the U.S. at U.S.$30.87 or higher (see Appendix 5). We believe that Taiwan should ultimately establish a tariff rate of U.S.$.132 per liter or 1% of c.i.f. for grape brandy exported from the U.S.

There is no confirming evidence, but market studies indicate that the "monopoly revenue charge" (which in essentially on excise tax) for domestic products is in the range of 60 percent.

For example, if the Taiwan excise tax is 60% ad valorem on Taiwan grape brandy then the same rate, in addition to the tariff rate outlined above, should be accessed to imported brandy. This will require complete transparency in the TTWMB's cost structure and a verifiable control mechanism to insure compliance with GATT's National Treatment requirement.

## IV. GATT DECISIONS ON MONOPOLY CONTROL OF ALCOHOLIC BEVERAGES:

The GATT recently reviewed the distribution of alcoholic beverages in monopoly controlled distribution systems. The GATT review involved discriminating trade practices by Canadian provincial government distribution systems. In February 1985, the European Community (EC) requested that a GATT Panel examine the alcohol beverage control systems of the provinces of Canada. The United States and Australia supported the EC's position.

The GATT Panel stated that the key issue was whether the higher markups imposed on imported alcoholic beverages discriminated against imports. The GATT Panel concluded that markups which were higher on imported than on like domestic alcoholic beverages could only be justified to the extent that they represented additional costs necessarily associated with the marketing of imported products. The Panel also concluded that the burden of proof would

be on Canada if it wished to claim that there were additional costs which were necessarily associated with the marketing of imported products.

In addition the Panel found that state-controlled enterprises (such as the TTWMB in Taiwan's case) could not engage in restrictive trade practices that governments were prohibited from engaging in under GATT. The monopoly could not be employed to circumvent the full reach of GATT obligations.

## V. GATT REQUIREMENT FOR "NATIONAL TREATMENT":

Under GATT Article III, once imported products have entered into the domestic stream of commerce of a contracting party, they are entitled to no less favorable treatment than like domestic products (i.e., national treatment). Specifically, Paragraph 2 of GATT Article III states:

> "2.
> The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly to like domestic products. Moreover, no contracting party shall otherwise apply internal taxes or other internal charges to imported or domestic products in a manner contrary to the principles set forth in paragraph 1." (i.e., "so as to afford protection to domestic production")

Since 1987, members of USBEA have actively opposed Taiwan's trade practices relative to alcoholic beverages in general and grape brandy in particular. It was a grave disappointment to the U. S. distilled spirits industry that the U.S. Government agreed to allow Taiwan to continue its exclusion of U.S. distilled spirits from the market when Taiwan agreed to market access for wine and beer in 1986. By 1991 U.S. beer had increased from zero in 1986 to U.S.$8.1 million and U.S. wine had increased from zero to U.S.$2.0 million.

## VI. USBEA PROPOSED CONDITIONS IN EXCHANGE FOR U.S. SUPPORT OF TAIWAN'S GATT ACCESSION:

The U.S. should require Taiwan to afford National Treatment to imports of U. S. alcoholic beverages in general and brandy in particular by providing for a transition to reasonable tariffs and establishing monopoly charges (excise taxes) which are the same for domestic and imported products. This request should be honored **BEFORE the** U.S. grants support to Taiwan's GATT accession.

Specifically the U.S Government should require Taiwan to:

1. Establish a Taiwan tariff rate of 87% of c.i.f. price for grape brandy which is comparable to the ad valorem monopoly charge currently applicable in Taiwan to cognac and armagnac and provide for additional 20% cut in the tariff rate so that at the end of five (5) years the Taiwan grape brandy tariff rate will equal the U. S. tariff rate of 1%.

2. Establish fair and reasonable tariff rates for other distilled spirits products which may be recommended and supported by producers and marketers of those products.

3. Establish internal excise taxes for distilled spirits in compliance with GATT regulations, prohibiting preferences for locally produced products and products which are distributed by government operated and controlled monopoly enterprises.

4. Establish advertising regulations which apply equally to imported and domestic distilled spirits.

5. Establish regulations prohibiting government control of importer, distributor, wholesaler or retailer markups or margins for distilled spirits.

6. Establish regulations which will prevent smuggling and counterfeiting of distilled spirits.

7. Establish regulations to insure trademark and appellation of origin protection for distilled spirits.

## VII. SUMMARY OF DISTILLED SPIRITS PRODUCTION AND CONSUMPTION IN TAIWAN :

Historically, alcoholic beverages produced in Taiwan have been made predominantly from rice and other grains. Grape wine and beer, both popular in the West, were not consumed in Taiwan prior to 1950.

As part of a program to internationalize the country, the government instituted many cultural programs including the promotion of domestic beer and grape wine industries. Domestic production of beer was started in 1953. In 1956, Taiwan started the grape wine industry and placed it under the control of the TTWMB.

Prior to 1956 grapes were not grown in Taiwan. Initial efforts to convince farmers to grow grapes were not successful so the TTWMB offered farmers guaranteed prices at which the government would purchase the grapes. These contracts remain in effect today.

The American Institute in Taiwan (AIT) advises that in 1991 Taiwan produced 113,610 metric tons of grapes, 36,995 metric tons of which were purchased by the TTWMB (See Appendix 6.) The average price paid by TTWMB for grapes was about NT $26 per kilogram or the equivalent of U.S.$1,052 per metric ton; by comparison, the average in 1991 for grapes of comparable quality in California was approximately $225 per metric ton.

One metric ton of grapes will yield about 45 proof gallons of brandy at 80 proof. Taiwan's annual production of brandy utilizes about 14,800 tons of the 36,955 tons purchased by the TTWMB in 1991. Other products and a build up of inventories utilized the remaining 22,155 tons of TTWMB grapes (see Appendix 7).

Appendix 8 is a summary of alcoholic beverage production in Taiwan in 1991. All of the production is done at the numerous facilities operated by the TTWMB. The summary indicates that only 1.7% of Taiwan's alcoholic beverages are produced from grapes and grape brandy accounts for only .46% of alcoholic beverages produced in Taiwan. By comparison, beer accounted for 65% of production and alcoholic beverages made from rice accounted for 29% of production in 1991.

Appendix 9 is a summary of the sales of TTWMB-produced alcoholic beverages which totalled U.S.$2.0 billion in 1991. Although brandy accounted for only .46% of TTWMB's production, its sales of U.S.$81.8 million accounted for 4% of the value of TTWMB's total sales in 1991. However, as noted in Appendix 1 the total market for grape brandy in Taiwan in 1991 totalled U.S.$247.9 million of which 67% were imported and 33% domestic brandy.

## VIII. TAIWAN'S DISTILLED SPIRITS AND BRANDY IMPORTS:

Appendix 4 is a summary of distilled spirits imports into Taiwan. It shows that grape brandy imports into Taiwan in 1991 totalled 524,000 cases valued at U.S.$70.6 million.

It is important to note that in 1991 grape brandy represented 23.1% of the total volume of Taiwan's distilled spirits imports but 60.9% of the value of spirits imports. The general market was "closed" in 1991 which means that all of the imported brandy that year was processed and distributed by the TTWMB.

Appendix 2 indicates that 99.4% of Taiwan's grape brandy imports in 1991 were from the EC. Spain represented 69% of the volume but only 7.9% of the value of those imports. French exports to Taiwan represented 29% of the volume but 91% of the value of Taiwan's

grape brandy imports in 1991. The average value per case of French exports to Taiwan was $412.69. The Spanish exports to Taiwan had an average value of $15.25 per case.

It should be clear, based on the value of Spain's export prices to Taiwan, that the product represents surplus grape distillate financed by the EC's $2.5 billion annual subsidy program for wine and brandy.

## IX. USBEA'S RESPONSE TO USTR'S INQUIRIES:

### 1. Impact of Taiwan's Accession to GATT:

Appendix 10 is a summary of statistical data relating to Taiwan's overall trade and agricultural trade with the U. S. In 1991 Taiwan enjoyed a positive total trade balance of U.S.$13.3 billion and a positive trade balance of U.S.$8.2 billion with the U.S. In agricultural products Taiwan had a negative total trade balance of U.S.$2.5 billion and a negative agricultural trade balance of $1.9 billion with the United States.

Taiwan is a very financially stable economy with impressive growth rates, substantial reserves and savings levels unequaled in the world.

Taiwan's membership in GATT will enhance U.S. market opportunities and tend to reduce the negative U.S. trade balance which was U.S. $18.9 billion in 1987 and U.S.$8.2 billion in 1991.

The market potential for U.S. grape brandy in Taiwan will be significant if the U.S. government secures favorable market access provisions during accession negotiations proposed in this brief. Within 5 years U. S. brandy should be able to attain a 20% market share in or about 180,000 cases per year with a c.i.f. value of U.S.$7.2 million .

### 2. Experience of U. S. Firms in Trading With Taiwan:

U. S. wine exporters have had good working relationships with Taiwan distributors and retailers. It has been extremely difficult to compete with TTWMB wine products because prohibitive "monopoly revenue charges" similar to those assessed on distilled spirits limit the sale of wine in Taiwan. The non-government distribution network for alcoholic beverages in Taiwan is anxiously awaiting an open market.

### 3. Structure and Conduct of Taiwan's Trade Policies:

With the exception of alcoholic beverage taxes and intellectual property issues, Taiwan's trade policies appear to be fair and reasonable.

### 4. Barriers to trade with Taiwan:

The specific barriers to alcoholic beverage trade are fully enumerated in this letter. We are not sufficiently informed to comment on Taiwanese trade barriers in other sectors.

## X. CONCLUSION:

For the reasons outlined in this submission, the USBEA respectfully requests that the USTR require Taiwan's agreement with the conditions outlined in Section VI of this statement in exchange for U. S. support of Taiwan's accession to GATT.

TAIWAN
SUMMARY OF DOMESTIC BRANDY PRODUCTION
AND
BRANDY IMPORTS
1991

| | | | RETAIL SALES VALUE | |
|---|---|---|---|---|
| | LITERS | CASES | TOTAL (U.S.$ 000) | PER CASE (U.S.$) |
| DOMESTIC BRANDY PRODUCTION | 3,136,600 | 348,511 | 81,800 | 233.33 |
| IMPORTED BRANDY | 4,772,673 | 530,297 | 166,124[1] | 313.26 |
| TOTAL | 7,909,273 | 878,808 | 247,924 | 282.11 |

[1] c.i.f. value of $70,671,000 plus TTWMB monopoly revenue
of NT$500 per liter or US$180 per case
equal to US$95,453,000 for a total retail value of US$166,124,000

SOURCES: TTWMB YEARBOOK
TAIWAN TRADE STATISTICS REPORT FOR IMPORTS
QUANTITY AND VALUE OF: BY COMMODITY AND COUNTRY
PAGES 3-63 TO 3-65

TAIWAN
SUMMARY OF GRAPE BRANDY IMPORTS
BY COUNTRY – 1991

| COUNTRY | VOLUME (CASES) | VOLUME % OF TOTAL | VALUE U.S.$ (000) | % OF TOTAL VALUE | AVERAGE VALUE PER CASE U.S. $ |
|---|---|---|---|---|---|
| FRANCE | 156,321 | 29.5% | $64,512 | 91.3% | $412.69 |
| HELLENIC | 429 | N | $115 | N | $268.07 |
| NETHERLANDS | 120 | N | $6 | N | $50.00 |
| SOUTH AFRICA | 4,000 | N | $320 | N | $80.00 |
| SPAIN | 368,310 | 69.4% | $5,620 | 7.9% | $15.26 |
| SWITZERLAND | 5 | N | $2 | N | $400.00 |
| SOUTH AFRICAN | 1,200 | N | $96 | N | $80.00 |
| TOTAL | 530,385 | 98.9% | $70,671 | 99.2% | $133.24 |
| EC TOTAL | 525,180 | 99.0% | $70,253 | 99.4% | $133.77 |

NOTE: N = LESS THAN 1%

SOURCE: TAIWAN TRADE STATISTICS REPORT FOR IMPORTS
QUANTITY AND VALUE OF: BY COMMODITY AND COUNTRY
PAGES 3–63 TO 3–65

TAIWAN
SUMMARY OF DOMESTIC BRANDY PRODUCTION
SALES AND MARKET VALUE
1982 – 1991

| | BRANDY PRODUCTION | | BRANDY SALES | | RETAIL VALUE OF BRANDY SALES | | |
|---|---|---|---|---|---|---|---|
| YEAR | HECTO-LITERS | CASES | HECTO-LITERS | CASES | NT$ (MILLIONS) | U.S.$ (000) | RETAIL VALUE PER CASE U.S.$ |
| 1982 | 19,007 | 211,188 | 14,443 | 160,477 | 688 | 27,520 | 171.48 |
| 1983 | 6,684 | 74,266 | 10,013 | 111,255 | 659 | 26,360 | 236.93 |
| 1984 | 4,751 | 52,788 | 5,446 | 60,511 | 415 | 16,600 | 274.33 |
| 1985 | 4,717 | 52,411 | 4,784 | 53,155 | 365 | 14,600 | 274.66 |
| 1986 | 9,119 | 101,322 | 7,899 | 87,766 | 487 | 19,480 | 221.95 |
| 1987 | 11,497 | 127,744 | 12,155 | 135,055 | 746 | 29,840 | 220.94 |
| 1988 | 19,154 | 212,822 | 15,785 | 175,388 | 973 | 38,920 | 221.90 |
| 1989 | 21,558 | 239,533 | 20,295 | 225,500 | 1,249 | 49,960 | 221.53 |
| 1990 | 25,086 | 278,733 | 24,463 | 271,811 | 1,510 | 60,400 | 222.21 |
| 1991 | 31,366 | 348,511 | 31,551 | 350,566 | 2,045 | 81,800 | 233.33 |

SOURCE: TTWMB YEARBOOK

TAIWAN
SUMMARY OF DISTILLED SPIRITS IMPORTS
1991

| PRODUCT | LITERS (000) | 9 – LITER CASES (000) | VALUE NT$ (000) | VALUE U.S.$ (000) | VALUE PER CASE (U.S.$) | PERCENT OF CASES IMPORTED | PERCENT OF VALUE IMPORTED |
|---|---|---|---|---|---|---|---|
| DENATURED ETHYL ALCOHOL <80% | | | | | | | |
| TOTAL | 4,834 | 537 | 60,304 | 2,412 | 4.49 | 23.7% | 2.1% |
| U.S. | 2,153 | 239 | 27,062 | 1,082 | 4.52 | 10.5% | X |
| UNDENATURED ALCOHOL >80% | | | | | | | |
| TOTAL | 5 | N | 619 | 24 | 43.24 | X | X |
| U.S | 3 | N | 107 | 4 | 12.01 | X | X |
| GRAPE BRANDY | | | | | | | |
| TOTAL | 4,772 | 530 | 1,768,789 | 70,671 | 133.34 | 23.1% | 60.9% |
| U.S | 0 | 0 | 0 | 0 | 0.00 | 0.0% | 0.0% |
| OTHER GRAPE SPIRITS | | | | | | | |
| TOTAL | N | N | 86 | 3 | 70.20 | X | X |
| U.S | N | N | 5 | N | 70.20 | X | X |
| WHISKEY | | | | | | | |
| TOTAL | 1,357 | 150 | 564,610 | 22,584 | 150.56 | 6.6% | 19.5% |
| U.S | 134 | 15 | 18,597 | 743 | 49.53 | X | X |
| RUM | | | | | | | |
| TOTAL | 14 | 2 | 1,886 | 75 | 37.50 | X | X |
| U.S | 0 | 0 | 0 | 0 | 0.00 | X | X |
| GIN | | | | | | | |
| TOTAL | 96 | 11 | 12,074 | 482 | 43.81 | X | X |
| U.S | 14 | 2 | 1,259 | 50 | 25.00 | X | X |
| DISTILLED CEREAL BEVERAGES | | | | | | | |
| TOTAL | 2,716 | 268 | 178,375 | 7,135 | 26.62 | 11.8% | 6.2% |
| U.S | 0 | 0 | 0 | 0 | 0.00 | 0.0% | 0.0% |
| DISTILLED FRUIT BEVERAGES | | | | | | | |
| TOTAL | 29 | 3 | 5,190 | 207 | 69.00 | X | X |
| U.S | 0 | 0 | 0 | 0 | 0.00 | 0.0% | 0.0% |
| OTHER DISTILLED BEVERAGES | | | | | | | |
| TOTAL | 6,930 | 770 | 310,178 | 12,407 | 16.11 | 34.0% | 10.7% |
| U.S | 190 | 21 | 12,833 | 513 | 24.42 | X | X |
| ALL DISTILLED SPIRITS | | | | | | | |
| TOTAL | 20,453 | 2,271 | 2,900,111 | 116,000 | – | 99.2% | 99.4% |
| U.S | 2,494 | 277 | 59,863 | 2,392 | – | 10.5% | 2.0% |
| U.S. % | 12.1% | 12.1% | 2.0% | 2.0% | – | – | – |

NOTES
N = LESS THAN 1,000 LITERS OR CASES
X = LESS THAN ONE PERCENT (1%)
SOURCE: TAIWAN TRADE STATISTICS REPORT FOR IMPORTS
QUANTITY AND VALUE OF: BY COMMODITY AND COUNTRY
PAGES 3–63 TO 3–65, ATTACHED

SUMMARY OF VALUE, VOLUME AND TARIFF REVENUE
OF U.S. GRAPE AND NON-GRAPE BRANDY IMPORTS
1991

| HTS NUMBER | DESCRIPTION | VALUE USD 1991 | QUANTITY PF LITERS 1991 | AVERAGE UNIT VALUE $/PL | TARIFF $/PL | REVENUE FROM TARIFF 1991 | TARIFF AS % OF CIF VALUE |
|---|---|---|---|---|---|---|---|
| 2208.20.20 | GRAPE BRANDY, NOT OVER $2.38/L, NOT OVER 4L | $261,000 | 191,000 | $1.37 | $0.898 | $171,518 | 65.7% |
| 2208.20.30 | GRAPE BRANDY, VALUE BETWEEN $2.38-3.43/L, NOT OVER 4L | $4,759,000 | 1,377,000 | $3.46 | $0.330 | $454,410 | 9.5% |
| 2208.20.40 | GRAPE BRANDY, OVER $3.43/L, NOT OVER 4L | $124,524,000 | 8,744,000 | $14.24 | $0.132 | $1,154,208 | 0.9% |
| 2208.20.50 | GRAPE BRANDY, NOT OVER $2.38/L, OVER 4L | $931,000 | 1,224,000 | $0.76 | $0.132 | $161,568 | 17.4% |
| 2208.20.60 | GRAPE BRANDY, OVER $2.38/L, OVER 4L | $22,000 | 4,000 | $5.50 | $0.106 | $424 | 1.9% |
| 2208.90.20 | NON-GRAPE BRANDY, NOT OVER $2.38/L, NOT OVER 4L | $226,000 | 110,000 | $2.05 | $0.898 | $98,780 | 43.7% |
| 2208.90.25 | NON-GRAPE BRANDY, VAL BETWN $2.38-3.43/L, NOT OVER 4L | $1,740,000 | 511,000 | $3.41 | $0.330 | $168,630 | 9.7% |
| 2208.90.30 | NON-GRAPE BRANDY, OVER $3.43/L, NOT OVER 4L | $38,440,000 | 3,120,000 | $12.32 | $0.132 | $411,840 | 1.1% |
| 2208.90.35 | NON-GRAPE BRANDY, NOT OVER $2.38/L, OVER 4L | $1,486,000 | 1,438,000 | $1.03 | $0.132 | $189,816 | 12.8% |
| 2208.90.40 | NON-GRAPE BRANDY, OVER $2.38/L, OVER 4L | $339,000 | 52,000 | $6.52 | $0.106 | $5,512 | 1.6% |
| | TOTALS | $172,728,000 | 16,771,000 | $10.30 | | $2,816,706 | 1.6% |

AMERICAN INSTITUTE IN TAIWAN
TAIPEI
7, LANE 134, HSIN YI ROAD, SEC 3, TAIPEI, TAIWAN
TELEPHONE:709-2000 CABLE:AITAIWAN TAIPEI

美國在台協會台北辦事處
台北市信義路三段134巷7號
電話:709-2000

October 30, 1992

Tom Bellamore
Brandy Expot Association
1 Market Plaza, Suite 1111
San Francisco, CA 94105

Dear Mr. Bellamore:

This is in response to your letter of October 20, 1992 regarding Taiwan's domestic brandy industry and alcoholic beverage trade. Answers to your questions:

a. Grape production (including grapes for brewing and for table use, in metric tons):

| 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| 69,407 | 66,109 | 88,148 | 104,384 | 102,692 | 113,610 |

Source: Taiwan Agricultural Yearbook

Grapes purchased by TTMWB: (in mt)

| 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| 30,970 | 30,662 | 16,240 | 34,701 | 39,641 | 36,995 |

Source: TTMBB Yearbook

b. TTWMB guaranteed purchase price for grapes:

TTWMB purchases the following three varieties of grapes: Black Queen, Golden Muscat and Niagara. Purchase of Niagara is insignificant. Purchase prices vary with quality. The 1992 prices for the other two types are: (in NT$/kg, Source: TTWMB)

| Grades | Gd 1-3 | Gd 4 | Gd 5 | Gd 6 | Gd 7 | Gd 8 | Gd 9 | Gd 10 |
|---|---|---|---|---|---|---|---|---|
| B.Queen | 6.8 | 20.5 | 29.3 | 31.5 | 33.8 | 36.1 | 38.3 | 40.6 |
| G.Muscat | 5.9 | 17.8 | 25.5 | 27.4 | 29.4 | 31.4 | 33.3 | 35.3 |

Exchange rate: Approximately NT$25=US$1 in 1992

The average purchase price for Black Queen grapes is around NT$30/kg while it is around NT$26/kg for Golden Muscat grapes.

c. Historical and current domestic production of brandy and other spirits: see enclosure.

d. Estimated production costs for domestic brandy and other spirits: not available.

e. Alcoholic beverage imports and exports, from all sources:
Imports of alcoholic beverage in 1991: mailed to you via Federal Express on October 29.

Exports of alcoholic beverage in 1991: see enclosure.

f. Alcoholic beverage consumption, by product type:
Please see sales statistics of alcoholic beverages in the enclosure.

g. Average consumer prices for various alcoholic beverages: Not available.

h. Overall volume of trade, and trade in agricultural commodities: mailed to you on October 29.

Information regarding national income, government revenue and expenditure, and production of beer, juice, and carbonated water which is requested in your October 28 fax is also attached. Other information is not available.

I hope these materials are usful for your project.

Sincerely,

Steven D. Yoder
Chief
Agricultural Affairs Section

TAIWAN
SUMMARY OF GRAPE UTILIZATION
IN ALCOHOLIC BEVERAGE PRODUCTION
1991

| PRODUCT | LITERS | GALLONS[1] | GALLONS PER METRIC TON[2] | METRIC TONS OF GRAPES UTILIZED |
|---|---|---|---|---|
| WHITE WINE | 2,454,400 | 648,943 | 134 | 4,843 |
| RED WINE | 75,500 | 19,962 | 134 | 149 |
| BRANDY | 3,136,600 | 829,317 | 44.8 [3] | 14,855 [4] |
| ROSE WINE | 5,584,900 | 1,476,648 | 134 | 11,020 |
| HONEY GRAPE WINE | 115,100 | 30,432 | 134 | 227 |
| SPARKLING WINE | 220,800 | 58,380 | 134 | 436 |
| PINEAU WINE | 34,600 | 9,148 | 134 | 68 |
| TOTAL | 11,621,900 | 3,072,830 | | 31,598 [5] |

[1] Liters x 0.2644
[2] 120 gallons per ton x 1.12 equals 134 gallons per metric ton
[3] 40 proof gallons per ton x 1.12 equals 44.8 proof gallons per MT
[4] 829,300 gallons divided by 2.38 gallons per case = 348,445 cases x 1.91 proof gallons per case equals 665,530 proof gallons divided by 44.8 proof gallons per MT equals 14,855 MT
[5] Appendix 1 indicates that the TTWMB purchased 36,995 tons in 1991. The variance of 5,402 tons were probably used to build up inventories in anticipation of increased wine and brandy sales in future years.

TAIWAN
PRODUCTION OF ALCOHOLIC BEVERAGE PRODUCTS
BY CATEGORY AND TYPE
1991

| PRODUCT | HECTOLITERS | 9-LITER CASES | PERCENT OF TOTAL |
|---|---|---|---|
| RICE FERMENTED PRODUCTS | | | |
| Red Rice Wine | 67,796 | 753,288 | 0.99% |
| Cooking Red Rice Wine | 408 | 4,533 | 0.01% |
| Shaohsing Wine | 349,345 | 3,881,611 | 5.10% |
| Shaohsing Wine (Old) | 181,435 | 2,015,944 | 2.65% |
| Yellow Wine | 42,657 | 473,966 | 0.62% |
| Hua Tiau Wine | 48,933 | 543,700 | 0.71% |
| TOTAL | 690,574 | 7,673,042 | 10.08% |
| BEER | | | |
| Taiwan Beer | 4,398,917 | 48,876,855 | 64.10% |
| Draft Beer | 93,785 | 1,042,055 | 1.37% |
| Shandy | 3,572 | 39,688 | 0.05% |
| Malt Beer | 8,084 | 89,822 | 0.12% |
| TOTAL | 4,504,358 | 50,048,420 | 65.64% |
| RICE DISTILLED PRODUCTS | | | |
| Whiskey | 2,784 | 30,933 | 0.04% |
| Michiu | 1,148,044 | 12,756,044 | 16.75% |
| Premium Rice Spirit | 79,844 | 887,155 | 1.16% |
| Cooking Michiu | 481 | 5,344 | 0.01% |
| Chamg Chuen Liqueur | 2,248 | 24,977 | 0.03% |
| Lung Feng Liqueur | 12,264 | 136,266 | 0.18% |
| Daw Shiang Chiu | 27,742 | 308,244 | 0.40% |
| Jasmine Wine | 1,095 | 12,166 | 0.02% |
| Chrysanthemum Liqueur | 1,148 | 12,755 | 0.02% |
| Shaohsing Spirits | 1,504 | 16,711 | 0.03% |
| TOTAL | 1,277,154 | 14,190,595 | 18.64% |
| KAOLIANG LIQUOR PRODUCTS | | | |
| Double Deer | 12,712 | 141,244 | 0.19% |
| Kaoliang Distilled Spirit | 17,524 | 194,711 | 0.26% |
| Mei Kwei Lu | 1,206 | 13,400 | 0.02% |
| Seng Yong Liqueur | 174,621 | 1,940,233 | 2.55% |
| Dah Chyu Liquor | 378 | 4,200 | 0.01% |
| Chu Yeh Ching Liqueur | 24,878 | 276,422 | 0.36% |
| Mau Tai Liquor | 8,923 | 99,144 | 0.13% |
| 8 Sample Liquor | 337 | 3,744 | 0.00% |
| TOTAL | 240,579 | 2,673,098 | 3.52% |
| FRUIT PRODUCTS | | | |
| Plum Wine | 6,757 | 75,077 | 0.10% |
| Lychee Wine | 2,654 | 29,488 | 0.04% |
| Taiwan Rum | 1,192 | 13,244 | 0.02% |
| Plum Liqueur | 3,388 | 37,644 | 0.05% |
| Rainbow | 344 | 3,822 | 0.01% |
| Vodka | 752 | 8,355 | 0.01% |
| Gin | 619 | 6,877 | 0.01% |
| TOTAL | 15,706 | 174,507 | 0.24% |
| GRAPE PRODUCTS | | | |
| White Wine | 24,544 | 272,711 | 0.36% |
| Red Wine | 755 | 8,388 | 0.01% |
| Brandy | 31,366 | 348,511 | 0.46% |
| Rose Wine | 55,849 | 620,544 | 0.81% |
| Honey Grape Wine | 1,151 | 12,788 | 0.02% |
| Sparkling Wine | 2,208 | 24,533 | 0.03% |
| Pineau Wine | 346 | 3,511 | 0.01% |
| TOTAL | 116,219 | 1,290,986 | 1.70% |
| OTHER PRODUCTS | 10,693 | 118,811 | 0.18% |
| TOTAL | 6,855,283 | 76,169,459 | 100.00% |

TAIWAN
SALES OF DOMESTIC ALCOHOLIC BEVERAGE PRODUCTS
1991

| PRODUCT | HECTOLITERS | PERCENT OF TOTAL | VALUE NT$ MILLIONS | VALUE US$ (000) | PERCENT OF US$ VALUE |
|---|---|---|---|---|---|
| RICE FERMENTED PRODUCTS | | | | | |
| Red Rice Wine | 73,013 | 1.02% | 279.8 | 11.2 | 0.55% |
| Cooking Red Rice Wine | 408 | 0.01% | 2.1 | 0.1 | 0.00% |
| Shaohsing Wine | 377,064 | 5.29% | 5,772.7 | 230.9 | 11.28% |
| Shaohsing Wine (Old) | 191,288 | 2.68% | 4,575.8 | 183.0 | 8.94% |
| Yellow Wine | 42,264 | 0.59% | 516.5 | 20.7 | 1.01% |
| Hua Tiau Wine | 53,670 | 0.75% | 1,695.5 | 67.8 | 3.31% |
| TOTAL | 737,707 | 10.34% | 12,844.4 | 513.8 | 25.09% |
| BEER | | | | | |
| Taiwan Beer | 4,451,066 | 62.15% | 22,319.9 | 892.8 | 43.60% |
| Draft Beer | 93,660 | 1.31% | 379.1 | 15.2 | 0.74% |
| Shandy | 2,905 | 0.04% | 18.9 | 0.8 | 0.04% |
| Malt Beer | 6,962 | 0.10% | 36.2 | 1.4 | 0.07% |
| TOTAL | 4,554,593 | 63.60% | 22,754.1 | 910.2 | 44.45% |
| RICE DISTILLED PRODUCTS | | | | | |
| Whiskey | 4,103 | 0.06% | 220.2 | 8.8 | 0.43% |
| Michiu | 1,209,608 | 16.60% | 2,970.8 | 118.8 | 5.80% |
| Premium Rice Spirit | 79,391 | 1.11% | 730.3 | 29.2 | 1.43% |
| Cooking Michiu | 481 | 0.01% | 2.5 | 0.1 | 0.00% |
| Charng Chuen Liqueur | 2,000 | 0.03% | 39.8 | 1.6 | 0.08% |
| Lung Feng Liqueur | 11,810 | 0.17% | 362.2 | 14.5 | 0.71% |
| Daw Shiang Chiu | 26,365 | 0.37% | 121.3 | 4.9 | 0.24% |
| Jasmine Wine | 543 | 0.01% | 8.8 | 0.4 | 0.02% |
| Chrysanthemum Liqueur | 611 | 0.01% | 9.4 | 0.4 | 0.02% |
| Shaohsing Spirits | 1,704 | 0.02% | 26.1 | 1.0 | 0.05% |
| TOTAL | 1,336,616 | 18.39% | 4,491.4 | 179.7 | 8.77% |
| KAOLIANG LIQUOR PRODUCTS | | | | | |
| Kaoliang Distilled Spirit | 11,989 | 0.18% | 176.1 | 7.0 | 0.34% |
| Kinmen Kaoliang | 34,117 | 0.48% | 837.0 | 33.5 | 1.64% |
| Tian Ma Kaoliang | 4 | 0.00% | 0.1 | 0.0 | 0.00% |
| Double Deer Liqueur | 14,903 | 0.22% | 340.5 | 13.6 | 0.67% |
| Mei Kwei Lu Liqueur | 1,848 | 0.03% | 28.3 | 1.1 | 0.06% |
| Seng Yong Liqueur | 199,197 | 2.93% | 3,970.4 | 158.8 | 7.76% |
| Dah Chyu Liquor | 335 | 0.00% | 6.6 | 0.3 | 0.01% |
| Chu Yeh Ching Liqueur | 23,774 | 0.33% | 863.3 | 34.5 | 1.69% |
| Mau Tai Liquor | 8,195 | 0.11% | 454.5 | 18.2 | 0.89% |
| Huu Pah Liqueur | 272 | 0.00% | 8.4 | 0.3 | 0.02% |
| 8 Sample Liquor | 232 | 0.00% | 21.3 | 0.9 | 0.04% |
| TOTAL | 294,866 | 4.28% | 6,706.5 | 268.3 | 13.10% |
| FRUIT PRODUCTS | | | | | |
| Plum Wine | 871 | 0.01% | 4.7 | 0.2 | 0.01% |
| Lychee Wine | 2,702 | 0.04% | 23.6 | 0.9 | 0.05% |
| Taiwan Rum | 2,161 | 0.03% | 26.5 | 1.1 | 0.05% |
| Plum Liqueur | 6,524 | 0.09% | 60.0 | 2.4 | 0.12% |
| Vodka | 695 | 0.01% | 15.3 | 0.6 | 0.03% |
| Gin | 444 | 0.01% | 12.0 | 0.5 | 0.02% |
| TOTAL | 13,397 | 0.19% | 142.1 | 5.7 | 0.28% |
| GRAPE PRODUCTS | | | | | |
| White Wine | 24,760 | 0.35% | 379.6 | 15.2 | 0.74% |
| Red Wine | 226 | 0.00% | 6.2 | 0.2 | 0.01% |
| Brandy | 31,551 | 0.44% | 2,045.4 | 81.8 | 4.00% |
| Rose Wine | 55,812 | 0.78% | 1,183.0 | 47.3 | 2.31% |
| Honey Grape Wine | 878 | 0.01% | 18.8 | 0.8 | 0.04% |
| Sparkling Wine | 1,945 | 0.03% | 17.9 | 0.7 | 0.03% |
| Pineau Wine | 385 | 0.01% | 14.7 | 0.6 | 0.03% |
| TOTAL | 115,557 | 1.62% | 3,665.6 | 146.6 | 7.16% |
| OTHER PRODUCTS | 113,047 | 1.58% | 582.8 | 23.3 | 1.14% |
| TOTAL | 7,165,783 | 100.00% | 51,186.9 | 2,047.5 | 100.00% |

TAIWAN

SUMMARY OF STATISTICAL AND TRADE DATA

1989 - 1991

Table 1

Agriculture's Contribution to GDP

1988.....5.1%
1989.....4.9%
1990.....4.3%
1991.....3.6%

Table 2

Macro-Economic Data

| | 1989 | 1990 | 1991 [1] |
|---|---|---|---|
| Income spent on food (percent) | 25.43 | 24.97 | 24.24 |
| Consumer Price Index (base year 1986) | 106.3 | 110.7 | 114.7 |
| Real GNP Growth | 7.3 | 5.0 | 7.2 |
| Real GDP Growth | 7.6 | 4.9 | 7.3 |
| GNP in Current Dollars (US$ bil.) | 150.3 | 161.7 | 180.1 |
| Per Capita GNP (US$) | 7,512 | 7,954 | 8,810 |
| Per Capita Income (US$) | 6,889 | 7,285 | 8,085 |
| Foreign Exchange Reserves (US$ bil.) | 73.22 | 72.44 | 80.00 |
| Average NT$/1US$ Exchange Rate | 26.3 | 26.90 | 26.80 |
| Unemployment Rate (% average) | 1.6 | 1.7 | 1.5 |
| Industrial Production (% change) | 3.7 | -1.0 | 6.5 |
| Fiscal Balance as % of GNP | 2.7 | -1.2 | -6.0 |
| Foreign Direct Investment (US$ bil.) | 1.604 | 1.330 | 1.300 |

Notes:
1) Estimates

Source: Directorate General of Budget, Accounting and Statistics

Table 3

Area and Population

| | 1989 | 1990 | 1991 |
|---|---|---|---|
| Total Population (mil.) | 20.1 | 20.4 | 20.5 |
| Working Population (mil.) | 8.4 | 8.4 | 8.5 |
| Population Growth (%) | 1.0 | 1.0 | 1.0 |
| Average Farm Size (ha) | 1.1 | 1.0 | 1.0 |

Total Land Area: 36,007 square kilometers
25 percent - crops
0.4 percent - livestock
2 percent - aquaculture
52 percent - forests

Source: Council of Agriculture (COA)

Table 4

Total Foreign Trade
Calendar years

| | 1989 | 1990 | 1991 |
|---|---|---|---|
| | --------US$ million------- | | |
| Total Imports - all countries | 52,231 | 54,719 | 62,862 |
| Total Exports - all countries | 66,201 | 67,214 | 76,161 |
| Balance of Trade | 13,970 | 12,495 | 13,299 |
| Total Imports - from U.S. | 11,995 | 12,612 | 14,114 |
| Total Exports - to U.S. | 23,996 | 21,746 | 22,317 |
| Balance of Trade | 12,001 | 9,134 | 8,203 |
| | ----------Percent--------- | | |
| U.S. Share of Taiwan Imports | 23.0 | 23.1 | 22.4 |
| U.S. Share of Taiwan Exports | 36.2 | 32.2 | 30.0 |

Source: Directorate General of Budget, Accounting and Statistics and Ministry of Finance, Dept. of Statistics

Table 5

Agricultural Trade
Calendar years

| | 1989 | 1990 | 1991 |
|---|---|---|---|
| | -------US$ million------- | | |
| Imports - all countries | 5,883 | 5,789 | 6,541 |
| Exports - all countries | 3,565 | 3,488 | 4,078 |
| Total Balance of Trade | 2,318 | 2,301 | 2,463 |
| Imports - from U.S. | 2,277 | 2,353 | 2,219 |
| Exports - to U.S. | 401 | 327 | 319 |
| Balance of U.S. Trade | 1,876 | 2,026 | 1,900 |

Percent of U.S.A. Agricultural Import Share (Value)
1981 - 39.0
1982 - 41.7
1983 - 42.2
1984 - 44.0
1985 - 45.0
1986 - 37.9
1987 - 36.5
1988 - 38.6
1989 - 38.7
1990 - 40.7
1991 - 37.0

Note:
- estimates (1)

Source: Council of Agriculture (COA)

Table 6

Selected Agricultural Imports
Million US$; U.S. share in (percent)

| | 1989 | 1990 | 1991 |
|---|---|---|---|
| Wheat | 176 (87) | 163 (83) | 138 (88) |
| Corn | 610 (94) | 703 (96) | 748 (99) |
| Barley | 42 (0) | 39 (0) | 35 (0) |
| Sorghum | 20 (50) | 5 (62) | 9 (0) |
| Soybeans | 543 (94) | 511 (99) | 489 (99) |
| Fishmeal | 258 (8) | 253 (14) | 255 (12) |
| Hides and skins | 504 (40) | 551 (37) | 554 (40) |
| Tobacco leaf | 117 (82) | 68 (79) | 70 (70) |
| Cotton (Raw) | 421 (16) | 408 (28) | 597 (20) |
| Logs and Lumber | 475 (13) | 427 (12) | 452 (12) |
| Sea Products | 228 (7) | 219 (9) | 238 (11) |
| Medicinal Herbs | 93 (9) | 82 (10) | 99 (6) |
| Beef | 154 (23) | 144 (16) | 170 (14) |
| Dairy Products | 298 (14) | 298 (16) | 355 (16) |
| Fruit and nuts | 221 (62) | 252 (62) | 226 (55) |
| Vegetables | 97 (23) | 139 (26) | 160 (23) |
| Wine | 71 (10) | 92 (12) | 129 (10) |
| Other | 1,555-- | 1,435 -- | 1,817 -- |
| All Agricultural Products | 5,883(39) | 5,789 (41) | 6,541 (37) |

Notes:
- estimates (1)
- 1991 estimates derived by 1-11 months actual and 1 month estimated data.
- Figures are c.i.f. prices and converted from NT$ at year's average exchange rate (1US$=NT$26.50 1989, 1US$=NT$26.90 1990, 1US$=NT$26.80 1991)

Source: Council of Agriculture (COA)

Table 7

Selected Agricultural Exports
Million US$; share to U.S. in (percent)

| | 1989 | | 1990 | | 1991 | |
|---|---|---|---|---|---|---|
| Rice | 17 | (0) | 14 | (0) | 41 | (0) |
| Vegetables | 40 | (0) | 37 | (0) | 53 | (0) |
| Fruit & Nuts | 91 | (1) | 63 | (1) | 93 | (1) |
| Pork | 507 | (0) | 662 | (0) | 984 | (0) |
| Sea Products | 822 | (19) | 807 | (15) | 783 | (16) |
| Tea | 24 | (21) | 21 | (29) | 22 | (24) |
| Proc. Fruit & Nuts | 105 | (5) | 81 | (7) | 92 | (8) |
| Proc. Vegetables | 398 | (19) | 354 | (16) | 324 | (15) |
| Proc. Sea Products | 507 | (10) | 451 | (9) | 602 | (8) |
| Other | 1,054 | -- | 998 | -- | 1,084 | -- |
| Total Agr. Exports | 3,565 | (11) | 3,488 | (9) | 4,078 | (9) |

Notes:
- estimate (1)
- 1991 estimates derived by 1-11 months actual data and 1 month estimated data.
- Figures are f.o.b. prices and converted from NT$ at year's average exchange rate. NT$ at 1US$=NT$26.40 1989, 1US$=NT$26.80 1990, 1US$=NT$26.80 1991.
- Vegetables include all fresh/chilled, no frozen
- Fruit & nuts include all whole fresh/chilled, dried, no frozen
- Sea products include whole fresh/chilled/frozen
- Processed fruit & nuts include all canned/preserved/frozen.
- Processed vegetable include all canned/preserved/frozen/dried/

Source: Council of Agriculture (COA)

**Statement of the Nintendo of America U.S.**
**Video Game Industry**

**Before the**
**Joint Hearing of the Subcommittee on Economic Policy,**
**Trade, and Environment, and the**
**Subcommittee on Asia and the Pacific**
**of the Foreign Affairs Committee,**
**United States House of Representatives**
**March 30, 1993**

This statement concerns the inadequacy of intellectual property protection in Taiwan which injures Nintendo of America Inc. ("NOA"), the over 175 independent U.S. licensees and developers which create, market and sell video games for the Nintendo video game systems, and the film and character licensors which license their properties for use in these video games (the "NOA video game industry").

We appreciate this opportunity to describe the continuing losses due to copyright piracy that are caused by the manufacture in and export from Taiwan of pirated video games that are sold throughout the world. Taiwan is the predominant source of pirated video games, which in 1992 resulted in lost sales in the United States of about $1 billion and an additional $1 billion in lost sales in the rest of the world.

To place the problem in context, we briefly discuss (1) the NOA video game industry (2) the history of attempts by the U.S. government to improve the adequacy and effectiveness of intellectual property protection in Taiwan, and (3) the Taiwanese

piracy problems that were the subject of the Special 301 Comments that were filed with the United States Trade Representative on February 12, 1993, on behalf of NOA, over 70 of its independent U.S. licensees, developers and several film and character licensors.

**The NOA Video Game Industry**

Nintendo games are played on three hardware systems. The "Nintendo Entertainment System" ("NES") consists of a hardware unit comprised of a microprocessor and other components. This console operates video game software stored in semiconductor memory chips. The memory chips are mounted on printed circuit boards and housed in separate plastic game cartridges. The NES console is connected to a television set, which displays the game, and to hand-operated controllers, light-sensitive toy guns and other peripherals, which are used to control the game being played. A very popular hand-held unit, called the "Game Boy," and an advanced "Super Nintendo Entertainment System" ("Super NES") console are also available.

There are a growing number of independent U.S.-based software licensees and developers -- currently approximating 175 -- which create 80% of the game titles for use with the three Nintendo hardware systems and 70% of the sales of such video games. Nintendo of America licenses these products, but the copyrights are owned by the individual companies which create or publish the games. The marketing and ultimate success or failure of a particular game are the responsibility of the individual companies

which own the copyrights. Licensees and developers make a strong economic contribution to the United States. For example, the 67 independent U.S. licensees/developers which supported the 1993 Special 301 Comments employ about 2,000 persons and had wholesale video game sales of about $780 million for 1992. If data were available on all of the independent licensees/developers, it would show an even greater economic contribution to the United States, perhaps as much as two to three times as much.

In addition to the creation, development and marketing of video games by its licensees and developers, NOA has also initiated a program by which licensees manufacture certain video games in the United States. About one million video games were manufactured in the United States in 1992 by these licensees. As more licensees manufacture games, the benefits to both the local and national economies will grow in terms of employment, income and spending.

It comes as a surprise to some, but video games are a multi-billion dollar a year industry. Indeed, video games are the single largest category in retail toy sales. The retail value of the video game products sold by NOA and its licensees in the United States in 1992 is estimated to be about $4.3 billion. The video game industry is as large as the PC-based business software industry and several times larger than the PC-based video game industry.

The U.S. video game industry is comprised of firms that design, develop, license, distribute and sell home video games, and companies that license popular trademarks and/or characters for use in those video games. Just like most business software companies, the majority of video game companies are small, yet this industry produces many billions of dollars in taxable revenue each year. Our companies are young, entrepreneurial, growing, and, when we can combine hard work with technical and creative innovation, profitable!

When a counterfeit game is sold in lieu of a legitimate game, video game licensees and developers suffer substantial losses. In addition, such sales cause losses to NOA, a Washington state-based company with about 1,400 employees. They also cause losses to the many film and character licensors which license their properties for use in the video games. For example, Absolute Entertainment is a U.S. developer and publisher of a video game based on "Star Trek: The Next Generation"; that property is licensed from Paramount Pictures. Infringement of that game causes losses to Paramount as well as to Absolute.

To understand the adverse economic impact of video game piracy on licensees and developers, one must understand the realities of the video game industry. There are several economic fundamentals. First, legitimate video games are expensive to develop and produce -- it costs $75,000 to $500,000 to develop and bring to market a new video game, excluding the cost of manufacturing. Also

not included in that cost are the expenditures to obtain the right to use the properties of the film and character licensors which are present in about 25% of the NOA video games.

Second, video games have a very short average shelf life of three to twelve months. When a video game's popularity fades, as with a hit audio recording, the licensee bears the loss of unsold video games.

Third, many licensees make about half of their sales in the United States and the other half in foreign markets.

Fourth, the most severe impact in terms of job losses is on developers, because development of video games is an extremely labor-intensive undertaking utilizing highly skilled, highly compensated employees. Lost sales reduce profits and consequently employment.

Unfortunately, copyright and trademark piracy preempts legitimate video game sales in foreign markets before U.S. licensees can introduce the authentic product. This occurs all too often as a result of the infringers' purchasing a copy of the authentic product in, for example, the United States and then copying it for resale in Europe. Moreover, it should be noted that few licensees do business in much of Latin America or in Asia, outside of Japan, because the pirates have virtually taken over many of these markets.

Thus, as you can see, piracy places developers and licensees at great risk. Also, the most popular games, the ones most likely to be copied, provide the revenue necessary to finance new games and sustain less popular ones. Thus, piracy results in a loss of development funds and can rob companies of the capital needed to maintain themselves and to create new video game software.

**The Long History of Inadequate Protection of Intellectual Property in Taiwan**

Inadequate intellectual property protection has been a major bilateral issue for the United States and Taiwan since at least the early 1980s. A brief review of U.S. government statements regarding intellectual property problems in Taiwan shows the seriousness of the long-standing problem.

(1) "In recent years, one of the major economic problems between the United States and Taiwan has been the trade in counterfeit products. In 1983, the U.S. International Trade Commission conducted a detailed study of the effect of counterfeit goods on U.S. industries. [Footnote omitted.] According to this study, Taiwan is reportedly the single largest source of counterfeit goods in all categories." [U.S. International Trade Commission ("USITC"), Operation of the Trade Agreements Program, USITC Pub. 1535, 316-7 (June 1984)].

(2) "Progress on protection of intellectual property rights has not been particularly speedy in Taiwan." [USITC,

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Operation of the Trade Agreements Program, USITC Pub. 1871, 192 (June 1986)].

(3) "Inadequate enforcement of existing laws protecting intellectual property rights remains a serious concern to U.S. exporters. This is particularly true in the case of copyrights and trademarks." . . . . "Computer software and videotape pirating are also rampant." USTR, 1989 National Trade Estimate Report on Foreign Trade Barriers 165.

**Taiwanese Video Game Piracy**

Last year, the NOA video game industry filed Special 301 comments requesting that Taiwan be designated as a Priority Foreign Country because it was the predominant source of pirated video games sold throughout the world. USTR made such a designation and initiated an investigation of Taiwan. In fact, the USTR determined that "Taiwan is a center for copyright piracy and trademark counterfeiting of U.S. products." [USTR, Special 301 Press Release (April 29, 1992)] The investigation was terminated on the basis of a June 5th, 1992, Understanding that obligated Taiwan to implement an effective export monitoring system to prevent the exportation of infringing video games and to enact the Bilateral Copyright Agreement which had been agreed to in 1989.

Taiwan has, however, breached the Understanding. It has refused to protect Nintendo of America's U.S. copyrights by stopping exports of piratical video games and it has not enacted

the Bilateral Copyright Agreement in the form agreed to in 1989. In short, Taiwan has failed to honor the Understanding. The USTR's 1993 National Trade Estimate Report on Foreign Trade Barriers at page 251 details the lack of several key elements in the export licensing system, including an effective detection infrastructure, realistic administrative procedures and clear written guidelines regarding investigation of suspected producers of infringing software. As a result of these inadequacies and Taiwan's total failure to agree to prevent export of video games that infringe NOA's U.S. copyrights, Taiwan continues to export throughout the world substantial quantities of pirated copies of video games.

In the February 1993 Comments under Special 301 by our industry, we have recommended that USTR take immediate retaliatory action against Taiwan. While there have been consultations between the American Institute in Taiwan and the Coordination Council for North American Affairs, Taiwan continues to refuse to prevent the export of video games that infringe NOA's U.S. copyrights. Consequently, we see no alternative but retaliatory action against Taiwan. Without retaliation, we fear that our industry's efforts to expand and penetrate overseas markets will be undermined and that pirated video games made in Taiwan will continue to saturate international markets.

Moreover, we recommend that the U.S. government oppose the admission of Taiwan into the General Agreement on Tariffs and Trade ("GATT") until it complies with its commitments under the 1992

Understanding. The U.S. should seek the denial of Taiwan's entry into GATT since it has not lived up to its obligations under the Understanding.

## Conclusion

We commend the focus of the Subcommittees on trade in Taiwan in view of the severe intellectual property problems in Taiwan. Safeguarding intellectual property rights from foreign infringers, including infringers in Taiwan, should continue to be one of most important trade policy goals of the United States. It is critical at the beginning of this new Administration that the USTR send a strong message under Special 301 to Taiwan that the U.S. government will not tolerate the continuation of Taiwanese laws and practices which foster piracy and counterfeiting.

Otherwise, the progress that has been made in strengthening intellectual property rights will be lost. Most importantly, absent strong worldwide intellectual property protection, American companies will be unable not only to obtain the rewards for their creations -- which translate into sales, profits and employment -- but also will be unable to finance the development for the next generation of their products.

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